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MODERN TARIFF HISTORY

GERMANY—UNITED STATES—FRANCE

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MODERN TARIFF HISTORY

GERMANY–UNITED STATES–FRANCE

BY PERCY ASHLEY, M.A.

LECTURER AT THE LONDON SCHOOL OF ECONOMICS
AND POLITICAL SCIENCE IN THE UNIVERSITY OF LONDON

WITH A PREFACE BY
THE RT. HON. R. B. HALDANE, LL.D., K.C., M.P.
AUTHOR OF "THE PATHWAY TO REALITY," ETC.

65672
25/5/05.

LONDON
JOHN MURRAY, ALBEMARLE STREET
1904

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PREFACE

The year 1903 will be a memorable one in the history of British politics. After a period notable mainly for its lack of interest a stirring controversy arose. Sides were taken violently, and families were divided. The line of party cleavage was destroyed. There was as much bitterness within the ranks of the Conservative party as there had been, seventeen years before, within the ranks of Liberalism about Home Rule. And yet, as in the latter case, the split was over no novel topic. In both its economic and its Imperial aspects the proposition which convulsed politicians and distracted statesmen had been made many times before. What was fresh was only this, that a protagonist of the first order had come on the scene, a minister of commanding personality and great energy. He declared himself converted to the necessity of the new policy, and it was not long before he found at least half the Unionist party at his back. It is not Mr. Chamberlain's way to do things by halves, and in an incredibly short time he had founded a powerful organisation to support and develop his idea. There were meetings everywhere, and people could talk of nothing but the fiscal question and its bearing on colonial policy. The British public took its usual course. It delights in the spectacle of a strong man fighting, and it showed its pleasure in rounds of applause. But this could not continue. In its heart the public hates everything sudden, especially when it takes the shape of an abstract proposition. What was put before the country, the eloquence and energy of the protagonist notwithstanding, was propounded both suddenly and in an abstract form. People began to ask about the cost, and then to grow suspicious and sulky. The by-elections became ominous, and even London club enthusiasm flattened. At first the prejudice had been unduly for the policy. Later on it became markedly against it.

The final opinion of the nation still remains for delivery; the time for judgment has not yet come. Speculation as to what that judgment will be when the British mind has mastered the argument on both sides lies beyond the purpose and scope of these pages. One thing is, however, certain. Much good has arisen from the fact that men and women have been forced to bend their minds on a topic of momentous importance, and to think as closely as they are capable of doing. We are inclined by our national character to avoid sharply defined issues, and to evade them by middle courses. Here, protestations to the contrary notwithstanding, it quickly appeared that no middle course could be anything but a hollow makeshift. Then there came about another good thing. The public began to feel that platitudes were of little weight on either side of the argument. In the early stage of the controversy they were as abundant as is usual in such discussions. Presently the necessity of precision in reasoning and of accuracy in figures and in materials became apparent. The expert rose in the popular estimation, and even the political economist assumed an heroic aspect. The works of Adam Smith, of Friedrich List, and of other great students, began to be displayed in the booksellers' windows. Then there were signs of something further. The public grew discontented with arguments and conclusions, however eminent their authors, which belonged to days that were past. There arose an almost feverish desire for a more modern presentation of the case on both sides, a presentation that should bring it up to date. People began to realise that the conditions of commercial and industrial competition had become vastly developed. They grew dimly aware that the controversy was of dimensions even further reaching than they had surmised. They learned that the problem had for a century past been occupying the attention of acute minds abroad, with the most varying and far-reaching results to national policy. They began to see that political as well as economic aspects had been and must be taken into account. In other words, the problem for Great Britain began to display itself as highly complex and full of ramifications, a problem on which the analogy of other countries with different political and geographical conditions could at best throw a very dim light. It became apparent that the most careful scrutiny and weighing were at every point essential. The difficulty of counting the cost of a sweeping change in economic policy became every day more obvious. And yet it was equally apparent that the problem of how to bring the machinery of the Empire up to date was a real problem. How to make up his mind grew for the man in the street a question of much greater difficulty than he had at first thought. Yet there remained, and remains, the irony of the situation. He has got to make up his mind, and to say "aye" or "no" to those who have presented to him the question for decision.

Such seems to be the nature of the present situation. Fortunately there is no hurry. It would be disastrous were it otherwise. The public is showing that it means to have full materials before it finally pronounces. It is beginning to give a preliminary indication that it regards the question as a twofold one: first, is change necessary? second, ought it, if necessary, to assume the form of renunciation of the freedom which we have to-day of buying where we please at the cheapest rate, and selling where we can in ever-increasing markets? For the necessity of bartering goods for goods in growing quantities is, on balance, ever causing the markets to grow, Protective duties notwithstanding. Moreover, logically at least, an alternative is possible. The needed reform of the machinery of the Empire may be capable of being effected in an altogether different fashion. Such seem to be the alternatives in the end of the year 1904. To discuss them fully would be outside the purpose of this book. I have referred to them only in order to show in what relation the book itself stands to them. As I have already reminded the reader, our problem in this country is original neither on its economic nor on its political side. Germany, the United States, and France have all considered it. The analogy of their cases can help, regard being had to their differing geographical and other conditions, but to a limited amount our judgment about the British case. But there is much that is in the highest degree instructive in the other cases, if they are examined by an adequate method. That method can be one only — the historical method. By the historical method I mean the plan of examining the state of things that has to be inquired into in connection with its past, and in the light of all materials which can show why and by what steps it has come about. Such a method has become familiar in this country; for example, in the study of the constitution, which we all agree can be understood and estimated adequately only by the aid of its history, Sir Henry Maine and other writers have applied the method with conspicuous success to institutions of a different kind, mainly juridical. In Germany the method has, however, been applied to the study of economics with a thoroughness that has not been attained here. The result has been great reluctance on the part of German thinkers to treat the question between Free Trade and Protection as an abstract one—a reluctance which has its parallel in that which makes Englishmen refuse to regard such questions as those that have been raised over the monarchy, or the theoretical perfection of our unwritten constitution as practical questions. These are before us as institutions which have grown up, and are likely to be altered only by a process of growth. Can the economic tradition of the last half-century be regarded as open to reconsideration by Great Britain more readily than modern German economists, such as those of the school of Schmoller, allow the corresponding fiscal condition of Germany to be open to reconsideration? Must we not regard it as incumbent on us to take a very wide survey of the past as well as the present before we jump at conclusions as regards the future? Is the problem, or is it not, conditioned by considerations of policy and of geographical position, as much as the problem has been thought to be by foreign statesmen who have had to deal with a past and a present differing from ours in material respects, and with people whose genius is different from ours?

These questions and others of a kindred nature arose in my mind a year ago, when I had to try to make as unprejudiced a reconsideration of the fiscal question as a politician is capable of. I wanted to examine the new political issue in this spirit, and I was so fortunate as to have the co-operation of the author of this book. Mr. Percy Ashley had been working as an economist at kindred problems; he was in a more detached position than myself. After twelve months of discussion and joint reading we found we had collected a mass of material—a fragment, no doubt, of the whole, but enough to make us feel that we knew better than at the outset where we stood. I suggested to Mr. Ashley, who had already contemplated lecturing on these subjects in the London School of Economics, that he should write an introduction to the study of this problem, as it had arisen in Germany, in America, and in France, based on a strict application of the historical method. He made the suggestion that I should write something by way of introduction to his introduction. As we had been working continuously together, I agreed, not because I felt I could add much, but because the outcome of our joint studies had made me feel that we were of one mind, and had got materials together which were worthy of a little attention. Such essays as this abound in Germany. Here there are distinguished economists who have done similar work, but there has been little encouragement given to them to throw the results of their labours into a popular form.

I have stated the origin of the investigation which is recorded in the pages which follow, and have described the spirit in which the endeavour was made to conduct it. The book is, of course, no more than an elementary one. It should, however, serve to show people that there are three large fields of historical study which cannot be safely neglected by anyone who wishes to arrive at conclusions of any value about the wider aspects of the new policy. The essay should also serve to remind the public how vain it is to jump at conclusions based on current opinion in foreign countries. As well might we draw the inference that we should substitute for our own constitution that of the United States or Germany because they are prosperous under their political arrangements. Their histories and their needs and the conditions of their development are not as ours.

If we look at the economic past of these countries in detail, the danger of rash inference becomes obvious. The German Empire has been developed out of a mass of small states, each possessing its own tariff arrangements. Unity had to be bought at a price. That unity was largely based on internal free trade given in exchange for external protection. An immense army had to be provided for the defence of a land with extensive frontiers, a land which had France on one side and Russia on the other. Internal sources had to be maintained from which could be drawn a race of strong soldiers, and an adequate home food-supply in case of war. This meant that agriculture had to be artificially fostered and protected. The alternative of command of the sea could be no alternative for Germany. The spirit of militarism, if it was necessary that it should continue to be dominant, must largely affect both the form of the constitution of the German Empire and the fiscal and industrial policy of her rulers. Yet the course has not been a plain one. The ominous growth of the Social Democratic party, and the division of opinion among German statesmen and economists in recent years as to which of two kinds of evil it was better to accept in the interests of national safety, has caused much uneasiness. To-day a majority of their economists remind us, at times impatiently, that they too have studied Adam Smith, and know the argument for Free Trade in England. But they add that England is not Germany, and that for Germany other considerations have to be taken into account besides those of how wealth may be best produced and distributed.

Readers of the essays by prominent writers which are published from year to year in Professor Schmoller's *Jahrbuch* know how often irritation is shown over the advice which we are so fond of giving to our foreign neighbours. But not less striking is the recognition that protective duties are dangerous instruments, and the opinion, very generally expressed, that we have been lucky in being able, by our position as a sea power, to be rid of them. Even List declared such duties to be of a merely temporary value, and looked forward to a time when Germany might be as able as England to be free of them. It was to the self-confidence of Cobden, rather than to his principles, that List took exception. When writers like Professor Wagner point out that British commerce shows signs of stagnation, they are careful to insist that this has little or nothing to do with Free Trade, and that the same symptoms will inevitably develop themselves in German commerce when it reaches a similar state of development. The world is producing for itself now, and no nation can hope to keep a monopolist position. That is one of the lessons which the historical method teaches, and a Protectionist writer like Wagner frankly tells us that it is not on the ground of commercial advantage, but despite commercial disadvantage, that he wishes to put restrictions on trade liberty in order to keep agriculture in Germany prosperous in the interest of the safety of the empire. In one conclusion, however, the majority of German writers seem to concur. They declare that the system of duties in Germany is in danger of being abused through the undue influence of the manufacturers. Protection may be, they think, a useful servant, but it is a very bad master. It leads to officials being subjected to pressure from the capitalists.

Much as we may have to learn from Germany in other spheres, we seem to have nothing to envy here. At best she bears her burden cheerfully in the interest of what she considers her own safety, with the aim of being, as far as she can be, self-sufficing. But she is under no illusion about the fact that she has had a price to pay, and that a growing political party is grumbling about that price. What we have to admire is the wonderful faculty of organisation which has enabled the nation, by the application of science to its industries and by such steps as the taking control of its railway system, to reduce its difficulties to a minimum. The story of the protective movement in Germany is summarised in the eighth chapter of the first part of this book. Anyone who wishes to find the strongest statement of the case for Protection from its German champions cannot do better, after going through the first part, than to read through the short treatise lately published by Professor Wagner under the title, *Agrar- und Industriestaat*. But how far the conclusions of that treatise are from receiving general acceptance he will speedily discover if he turns to the writings even of those German economists who favour a tariff for "big revolver" purposes. And if he goes still further and looks into the arguments of yet another group, he will find that they look on the "big revolver" as not only a dubious possession in point of utility, but as a drawback to its possessors in matters that are of vital importance.

The story of the tariff movement in the United

States is a wholly different one. Considerations of national defence have, of course, had no place in it, at all events for a long time past. But the protectionist traditions which arose in the end of the eighteenth century under the influence of Hamilton have retained a deep hold. The reasons are not difficult to discern. The United States possess an enormous and still growing home market, which diminishes the importance for the Republic of foreign commerce. The country produces its own food in abundance. The tariff question in American politics has not, like the tariff question with us, been dwarfed in importance by other topics. On the contrary, it has been throughout one of the most important issues with which Congress has been called on to deal. The result of this has been that the manufacturers have brought influence to bear in a fashion which has no parallel in this country. To the manufacturers Protection has undoubtedly afforded facilities which they could not have had without it. By means of the tariffs they have been enabled to develop the trust system to an extent which would have been impossible in the face of free competition. Of the effect of this on the public mind in the United States it is not easy for a foreigner to judge. But there are indications that the very independent and practical mind of the nation is becoming disposed to inquire into the utility of these huge monopolist organisations more closely than before. It would probably be very difficult to bring the mind of the

American people strongly on the side of Free Trade. They have not had occasion to feel the want of it. Yet it would probably be still more difficult to get that people to agree in stating the principle on which the defence of their protectionist system rests. The impression one gathers from the study of such books as Taussig's *Tariff History* is that the United States have gained, at all events in recent times, nothing at all by Protection, and that they would be just as well off to-day had their system been a Free Trade one. Apart from the disturbing effect on the individual manufacturer of the trust, the cost of production has been greatly raised under the American tariff system, to the serious detriment of certain great industries, such as shipbuilding. What is clear is that in the case of America also no analogy presents itself which could be usefully followed by Great Britain from an economic standpoint.

France presents to the eye of the student of finance a spectacle which is by no means satisfactory. The inference which a study of her economic history suggests is that she has suffered so severely from want of liberty to buy when her people best could, that but for an exceptionally fertile soil she would have been to-day in a very serious position. The story is told by Mr. Ashley in the last part of this volume, and I shall not try to summarise it. Unlike Germany, and like our own country, she has a great seaboard, and might have had a great foreign trade, with a consequent development of her home industries. She has not been hampered by the geographical conditions which have played their part in determining the rulers of Germany to subordinate considerations of economic development to those of national defence. She has throughout been able to look to sea power, in large measure, at all events, for the protection of her avenues of food-supply on north, on west, and on south. So far as a foreigner may presume to form an opinion, she would have been better off throughout under a Free Trade system. Her people possess great intelligence, industry, and adaptability, and she has large supplies of raw materials. But the class influence of the manufacturers on her politics has been immense, and she has had to pay for this. Her history is a striking illustration of the tendency of a protective system to get the upper hand, and, having got it, to keep it.

I come back to the case of Great Britain. Are we, then, it will be asked, satisfied that we live and compete under the best of all possible conditions? Do you say that there is nothing which remains to be done? My answer is in the negative. To me it seems that what has emerged from the discussion which has been raging for more than a year is that there is much room for reform. But in the case of a small island with a great seaboard, and with a great national capacity for command of the sea, protective remedies seem to me to be no remedies. I do not lose sight of the considerations that weigh on the minds of many thoughtful people. The burden of the Empire and of its defence is growing, and must in time outstrip our resources. We cannot hope, unless aided by the over-sea dominions of the Crown, to be able permanently and adequately to watch over their safety.

We have no longer the monopoly of days gone by. Foreign countries have developed not only their manufactures, but their fleets and armies. Great as has been the growth of our national wealth, our comparatively small home population has, so far as capacity for manufacture is concerned, probably got near to saturation point. But can we infer that it is possible to bring the subjects of the Empire within an economic ring-fence, such as the geographical conditions of Germany and the United States have made possible? Our loose-jointed Empire, loose-jointed in area and in constitution alike, does not seem to admit of this. Its history reminds us that its cohesion has rested on just this looseness of jointing; never on mechanical devices, but always upon the simple co-existence of common purpose and sentiment with the most complete local liberty. What is has not been put together from without. It is the result of a process of growth. When I consider two things—the first, the extreme difficulty of avoiding the friction arising from the want of local liberty which every tariff system tends to bring with it; the second, the impossibility of counting, for a country so peculiarly conditioned as is ours, the economic price which must be paid if we part with the existing liberty of buying and selling—I feel misgiving about the new policy. Its risk is tremendous, and what is risked is nothing short of the cohesion of the Empire. Surely the burden of proof rests heavily on those who invite us to leap with them. *Vestigia nulla retrorsum!*

There seems to be another way along which one can see further. For the sake of the Empire, as well as for our own sakes, we must seek to develop the wealth of the islands which form the centre of the Empire, and to expand their commerce. In days gone by it was the production of the best quality of goods that gave us a monopolist position. We cannot again hope for a monopolist position. But with the development of the import trade of the world larger markets than ever are open to our people for competition. That this must be so the theory of exchange on which foreign trade rests shows. That it is so the statistics demonstrate. If we would remain ahead of our rivals, we must continue to be ahead of them in quality of what we make. No tariff can keep out that quality which is the key to quantity. On this side I hope and believe that the recent controversy has wakened up the nation, and made it see that alike on the side of economic as of social and imperial questions the key to progress is method and the education in the widest sense of our people.

In the distant parts of the King's dominions there is reproducing itself rapidly among those of our own race the unwritten and developing constitution under which we ourselves live. Its basis is liberty—government of the people by the people for the people. But such liberty, as experience has shown, makes for and does not exclude the common ends and ties of feeling which are the real basis on which rests the unity of the subjects of the Crown. Is it beyond the capacity of a sufficiently broad-minded statesmanship to turn its attention to these vital matters, steadily keeping in view that bargains and written rules and whatever restricts complete freedom are perilous to them? Such a statesmanship might find real work to do in bringing the machinery of the Empire into the shape which would allow of the greatest liberty of development alike at home and across the seas. The way may be difficult, but the histories of foreign nations can hardly be relied on to point us to any other.

R. B. HALDANE.

Cloanden, Auchterarder,
1*st September*, 1904.

NOTE

THE present volume is based chiefly on lectures delivered at the London School of Economics in the Lent and Summer Terms of 1904. They were an attempt to provide students with a brief and, so far as possible, unpartisan sketch of the development of tariff policy in those states which are most frequently compared with the United Kingdom; and of the forces, political and economic, which have determined that development. The writer does not profess to offer the results of much original research; the bibliographies and footnotes will, it is hoped, sufficiently indicate the extent of his indebtedness to others.

P. A.

August, 1904.

PART I

GERMANY

MODERN TARIFF HISTORY

CHAPTER I

THE FORMATION OF THE ZOLLVEREIN

At the close of the Napoleonic wars Germany was in a state of the utmost political and economic confusion, and the Congress of Vienna did little to remedy the evil. It gave the new Germanic Confederation a constitution vague and impracticable, and it offered no effective means of dealing with the most pressing problem, that of economic reorganisation. One of the worst results of German particularism was the existence of a separate customs system in each of the thirty-nine states, many of them very small, which composed the Confederation; and, moreover, commerce was hampered in every conceivable way, not merely within Germany, but also within the larger states, such as Prussia. In that kingdom there were nearly sixty different local tariffs with a total of nearly two thousand eight hundred classes of goods;[1] in some of its provinces, particularly in the western part of the monarchy, the importation of foreign manufactures and products was allowed free or on payment of only moderate duties, in others it was either absolutely prohibited or subject to extremely heavy duties.

The first reforms came in Prussia by the Tariff Act of 1818. Its authors—Bülow, the Minister of Finances, and Maassen, who was responsible for the details of the tariff—were greatly influenced by the economic ideas of Adam Smith, which were at that time making their way in Germany; (1) the internal customs were abolished, and (2) the whole tariff policy reformed in the direction of the establishment of greater liberty of trade and commerce. Under the new system the importation of raw (3) materials was to be free; an (4) average duty of 10 per cent. was imposed on manufactured goods; (5) "colonial produce" was to pay up to 20 per cent.; (6) and there were to be moderate duties on the transit of goods passing through Prussia to other states. (7) There was also to be an excise levied on the consumption of certain goods in Prussia itself. The tariff so adopted was more liberal than any continental tariff of the time, and in some ways the new policy was more advanced than that even of Great Britain. Germany—particularly the northern part—was predominantly agrarian, and exported considerable quantities of agricultural produce to foreign markets. The landowners in Prussia were interested in Free Trade, and so were the coast towns on the Baltic with their extensive carrying trade. Manufactures were developing slowly; they had received some stimulus from the "continental system" of Napoleon, but the new tariff gave only a moderate protection to the home manufacturers, who were by no means satisfied with it; and it contained no prohibitions of import except in regard to salt and playing cards, which were Government monopolies. It had one peculiarity—the new duties were not levied on the value of the imported goods, but consisted of a fixed charge on a given weight or measure of each commodity. These "specific" duties were on the average at first about 10 per cent. on the estimated value of the goods, and remained not at the same percentage, but at the same actual amount, whatever changes came over the value. This procedure had the advantage of simplicity; it was not necessary to provide a staff of expert valuers at all the customs stations. On the other hand, there was the distinct disadvantage, which later was severely felt, that there came to be no particular relation between the value of the commodity and the duty; if the value of the given quantity of a particular article declined for any reason, the old duty might become extremely heavy; whilst on the other hand, if the quality improved, and with it the value, the duty became proportionately so much smaller. So that the duties tended to become much more protective for goods of inferior quality than for the better class of commodities.[1]

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[1] Zimmermann, i. 1.

The new tariff came into force on January 1st, 1819, and in the same year a policy was inaugurated which was destined to have the most far-reaching results. In the kingdom of Prussia there were no less than thirteen "enclaves,"—petty states or parts of states completely surrounded by Prussian territory. All of these attempted to maintain customs systems of their own, and as a result came into sharp conflict with Prussia, whose new tariff and its vigorous enforcement against them roused considerable indignation in Germany. It was, however, impossible for them permanently to resist the pressure, and in 1819 the little principality of Schwarzburg-Sondershausen accepted Prussia's offer to take over the administration of its customs, and in return to give it the right of trading with

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[1] In the report of Dr. (afterwards Sir John) Bowring, who visited Germany to report on the Zollverein to the British Government in 1840, it is stated that the effect of the fall in prices since 1818 and of some increases of duty had been to make the duties on some kinds of manufactured goods anything from 20 to 80 per cent., so that in some cases they became absolutely prohibitive. These duties had come to be higher on goods of coarse quality than on fine qualities; the actual duty on woollen goods varied from 3½ to 120 per cent. Friedrich List welcomed this effect of the Tariff, because it gave protection to "articles of common use, which every land can best manufacture for itself, and of which the home manufacture, on account of its great amount, is most important for the country" (Schippel, p. 86). This system has been commonly adhered to throughout German tariff legislation, as in Great Britain since the middle of last century, mainly because of its superior administrative advantages. For an account and criticism of the alternative method of *ad valorem* duties, see pp. 168 n., and 236–8.

Prussia free from all restrictions, and a proportion of the total joint customs revenue. But there was much indignation in particularist circles, and it was only very slowly that the other enclaves followed the example; in fact, the next instance was not till 1822.

The policy of Prussia, as exemplified in the agreement with Schwarzburg-Sondershausen, was to take the absolute control of any union which might be formed; but it was quite evident that whatever the small states might do, the larger states would not agree to any such system. All clung to their independence; the small states would not subordinate themselves to the larger, save under compulsion, and scarcely any state was willing to consider the economic interests of the whole Confederation as superior to its own private aims; there was, in fact, an incessant commercial and industrial war. But already there were signs that the people were becoming weary of these conditions. Early in 1819, Nebenius, an official of Baden, issued on behalf of his Government a memorandum on the economic condition of Germany. He pointed out that, though that country suffered from the tariff system of its neighbours, it suffered still more from the commercial policy of its own component states. The only real remedy was the formation of a league of the German states, the abandonment of their protective policy against each other, and the adoption of a common tariff against foreign countries.

At the same time, it would be necessary for the German states to bring their system of internal taxation into something approaching uniformity. It is this memorandum which has given Nebenius the credit of being the father of the idea of the later Zollverein, but the idea was not confined to him. In April, 1819, a deputation of manufacturers and others, chiefly from the South German states, appeared at the Federal Diet to urge the adoption of a similar policy: that deputation represented a commercial and trade union, which had been formed two or three years before, largely under the leadership of Friedrich List, and, unlike Nebenius, it was avowedly protectionist in the interests of German industry. Unfortunately the Federal Diet was hopelessly weak, and exercised practically no influence on the policy of the various states; it could do nothing in the direction proposed, and reform had to come in another way.

The southern states set to work to attain the desired end by treaties among themselves; it was absolutely necessary for them to do something, since they were harassed in the north by the growing Prussian Union and in the south by Austria—both with their transit duties. So there began a series of conferences between the southern states at Darmstadt between 1820 and 1823 on schemes to resist Prussia, and to combine on a common tariff policy—conferences which had no practical result, but at their close "offered foreign countries a new and pitiable picture of German confusion, and of the triumph of petty particularist interests over the common good."[1] The failure of the conferences was followed by a new tariff war in Southern Germany, and such a condition of affairs could not long continue. Württemberg in particular was untiring in its efforts to improve the situation; it called a fresh conference at Stuttgart (1823 to 1825), which was again unsatisfactory and produced no immediate result. Recourse was then had to separate treaties. Already in 1824 an agreement had been made between Baden and Hesse-Darmstadt, and also one between Württemberg and the Hohenzollern principalities in its midst. Early in 1825 Württemberg and Bavaria had agreed on a scheme of Customs Union under joint administration, and they now tried to get Baden, Hesse, Electoral Hesse and Nassau to join them. These negotiations failed, but in April, 1827, a provisional agreement, confirmed and completed in January of the following year, established a Union of Bavaria and Württemberg on the basis of a common tariff, abolition of duties on commodities passing between the two contracting countries, joint administration of the customs, and division of the net proceeds of the duties according to population.

Prussia had not failed to follow the course of these negotiations, or to learn the lesson which they taught. Until this time, it seems that the Prussian statesmen had not thought of a larger union, except in the form of a customs system under the direction of themselves alone. They had treated the other enclaves, which had united with them — Schwarzburg-Rudolstadt, Saxe-Weimar, Lippe, Mecklenburg-Schwerin—just as Schwarzburg-Sondershausen; the small states were given no share in the management of the Union. "In the south, on the other hand, Bavaria and Württemberg had fully realised the idea of a union with equal rights to all its members, with independent administration and complete reservation of all individual rights, without prejudice to the necessary unity of the whole and to the common end in view. Clearly this system must commend itself to the Governments of the minor states rather than the Prussian plan, which involved some loss of independence."[1] The Prussian rulers saw the danger, and changed their policy. In February, 1825, less than a month after the completion of the treaty between Bavaria and Württemberg, and largely because of that treaty,[2] an agreement was made between Prussia and Hesse-Darmstadt, which laid the foundation of the later Zollverein. No changes were to be made without mutual consent, and Hesse kept control of the customs administration within its own area.

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[1] Weber, p. 34.

Events now moved rapidly. In August, 1828,

[1] Weber, p. 61.

[2] "The political purpose had triumphed over the fears of the Prussian financiers, for, shortly before, on the 18th of January, Bavaria and Württemberg had finally completed their Customs Union" (Zimmermann, i. p. 53).

some of the minor states, including Hanover, Brunswick, and the two Hanse towns, Hamburg and Bremen, formed a Middle German Commercial Union, under the leadership of Saxony, chiefly to resist the pressure of the two existing unions. But the new organisation was inchoate and short-lived; it had no definite policy or purpose beyond that of resistance, and found no means of reconciling the interests of its constituent members. In fact, the small states were in an impossible position, and their difficulties were intensified when in May, 1829, an agreement was made between the Prussian Union and Bavaria and Württemberg, on the basis of reciprocal reduction of duties to (1 the extent of 20 to 50 per cent. on many commodities,[1] (the approximation of the two customs systems to a common form, and (3) yearly conferences. The Middle German Union was breaking down; its members were showing an inclination to draw near to the Prussian Union or the Southern Union, as suited them best, and in 1830 Saxony intimated to Prussia its desire to enter into negotiations for its entry into the Prussian Union. The collapse was completed when Electoral Hesse joined Prussia in 1831—an event of considerable importance, since the geographical position of that state between the western provinces of Prussia and Hesse-Darmstadt could establish or prevent the real effectiveness of the commercial alliance of these two. The Northern and Southern Unions now drew together, and the final negotiations commenced. They were most delicate and difficult, for there were many diverse interests to be reconciled. 1 In Prussia itself, the sea-towns and the agricultural provinces were favourable to freedom of trade, and the manufacturers desired protection; the former, however, had the upper hand. 2 The northern states of Germany, and especially the Hanse towns, supported the liberal policy; and so did the great commercial centre of Frankfurt-on-Main. In Saxony, the traders of Leipzig inclined towards union with Prussia since they sympathised with the ideas which underlay her tariff; the manufacturers who wanted protection were hostile. The southern states were divided in the same way. Moreover, the manufacturers of Prussia felt that they would be seriously menaced by the free competition, from the industries of Saxony for example, which must follow a complete union. The divisions to be made of the proceeds of the tariff were also a difficult matter, for the consumption of "colonial produce" per head was much greater in Prussia than in the south; and further, some of the smaller states were strongly averse to the surrender of any sovereign rights.[1] The Prussian ministers were by no means optimistic, but the negotiations were carried to a successful issue, partly because of economic considerations, and partly because of political motives on the part of Prussia—these latter were in fact the determining consideration.[1] The work was done by Maassen, now Minister of Finance in Prussia, and Von Mieg, who represented Bavaria and Württemberg. On the 22nd of March, 1833, Bavaria and Württemberg joined the Prussian Union, and the example was immediately followed by Saxony. Negotiations had meanwhile been going on with Hesse-Cassel and the Thuringian states, and in May of the same year they also gave their adhesion.

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[1] It is curious to observe how indifferent Austria was to these negotiations; Metternich and his colleagues did not regard them as dangerous, and did not believe that they could be successful. They might possibly have drawn the southern states towards Austria by commercial treaties, but the efforts which they made in this direction were scarcely serious, and altogether ineffective. Great Britain, on the other hand, was fully alive to the danger which threatened her position in the German market, and attempted to check the formation of a great German customs area by treaties with various small German

The Zollverein, so formed by a series of treaties, and including seventeen states with a population of some twenty-three millions, came into force on January 1st, 1834. Policy was to be determined from time to time by an annual meeting of representatives of the constituent states, but any change required unanimous approval; this (though probably unavoidable in view of the tenacity with which the several states clung to their independence) was one of the weak points of the organisation—a proposal, approved by all the

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states. The treaty completed with the free city of Frankfurt did for some time prevent that city from joining the Zollverein. France made a number of attempts to detach the smaller states, especially those along the Rhine, by the offer of special tariff treatment, but without success (Weber, p. 105).

[1] "The anxiety of the economist had been forced to yield to the hopes of the statesman" (Von Treitschke).

states chiefly concerned, might be vetoed by one of the least important members of the Union. A common tariff (based in the main on the rates in force in Prussia) against all states outside the Union, and the abolition of all duties on goods passing between the various members, were the fundamental principles; but each state kept its own commercial code, its own patent laws (with the right to tax commodities, coming from other members, which would infringe patents) and its own Government monopolies. The proceeds of the customs duties were to be divided amongst the states in proportion to population. The tariff rates imposed moderate duties on manufactured articles, duties for revenue on colonial produce, and gave freedom of import for raw materials and some manufactured articles required for industry. Much still remained to be done before the Zollverein became a unified commercial and industrial organisation, but the foundations were firmly laid.

Many important states still stood aloof, particularly the northern states—Hanover, Brunswick, Oldenburg, Holstein, the two Mecklenburgs, the three Hanse towns and Luxemburg—with Baden and the important commercial city of Frankfurt. Some of these did not long remain outside the Union; the accession of the isolated Grand-Duchy of Baden, realised by its Government to be inevitable after the breakdown of the Middle German Union, was delayed only till May, 1835, by the hostility to Prussia of some of its political parties.

In the same year Nassau joined the Zollverein, and the example was followed by Frankfurt after long and difficult negotiations at the beginning of 1836. In the next five years a number of small and not very important territories—such as Waldeck, Pyrmont, and Lippe-Detmold—were included in the Zollverein without receiving the rights of independent members. Most of the larger states which persisted in their independence continued to act separately, but in May, 1834, Hanover, Oldenburg, and Brunswick, whose interests were nearly identical, formed a union of their own, called the Steuerverein.

Almost immediately after the completion of the work of organisation, attempts were made to place the relations of the Zollverein with the neighbouring states on a more satisfactory footing. The diplomatic representation was entrusted to Prussia, but the first efforts were by no means successful. The negotiations with Russia, which pursued an almost prohibitive policy, failed completely, as did those with Austria;[1] whilst the Zollverein was distinctly worsted in a conflict with the Government of Louis Philippe in France.[2] The chief treaties actually completed were with Holland and Great Britain. In the former case there was something like a short customs war; the Dutch Government desired a commercial treaty, and to enforce its desire, and partly also to protect Dutch agriculture against German competition, it imposed higher duties on grain in October, 1835. The Zollverein replied by the imposition of higher duties on Dutch sugar, and by the abolition of privileges enjoyed by Dutch vessels on the Rhine. Negotiations for a treaty then began, but broke down over the sugar question, since the growing sugar industry in Germany was strongly hostile to any concessions to Holland in this matter. So at first it was only possible to make an agreement in 1837 in regard to shipping, which put the vessels of the two nations on an equality. Negotiations continued, however, and in the beginning of 1839 a further treaty was completed, which reduced a number of duties on Dutch produce. But it was speedily felt in the Zollverein that the concessions made to Holland were too great, and certainly there is in this case no sign of the skill which subsequently characterised the conduct of German commercial negotiations. Consequently the treaty was denounced by the Zollverein less than two 1841 years later. The treaty with Great Britain, completed in March, 1841, was also limited to the matter of shipping; it exempted Prussia from many of the restrictions contained in the English Navigation Acts, and on the whole was of some benefit to Germany, whilst Great Britain, in return, got the same reduction in the duties on sugar and rice as had been granted to Holland. The treaty was not popular, in the southern states particularly, and came to an end in 1848.

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[1] The details of these negotiations can be read in Zimmermann, i. pp. 138–52.
[2] *Ibid.*, p. 162.

In 1841 the formal renewal of the Zollverein took place. It was perfectly clear that its institution had been of the utmost benefit to the constituent states; industrial and commercial development had been greatly stimulated; many of the causes of inter-state disputes had been removed, and Governments and people were on the whole alike well satisfied. The only difficulty at the renewal was caused by Prussia, for the financial arrangements of the Union had benefited the smaller states, but had reduced the revenues of Prussia, and her statesmen were somewhat dissatisfied, though they recognised fully the advantages which they had gained.[1] But the difficulty was not insuperable, for no one was anxious to break up the Union; certain additional financial arrangements were made, not quite satisfactory to Prussia, but accepted by her, and the Zollverein was renewed on May 8th, 1841, for twelve years. Immediately afterwards there came fresh additions of territory. Brunswick was discontented with the action of Hanover in the Steuerverein, and quitted that organisation in 1842; in the same year it entered the Zollverein. So did Lippe-Detmold and Schaumburg, and, much more important still, Luxemburg, which, though in personal union with the kingdom of Holland, was itself a member of the Germanic Confederation. In the last case special arrangements had to be made to prevent the Dutch Government making use of the position of Luxemburg to influence the policy of the Zollverein, and so the representation of the Duchy in the Councils of the Union was entrusted to Prussia.

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[1] "Although Prussia does not fail to recognise that its subjects have shared in the general advantageous results of the Union, yet the position is altogether different when viewed from the financial standpoint" (Circular of the Prussian Government, 1839; quoted in Weber, p. 185). It would have been inadvisable to refer to the political advantages accruing to Prussia.

One other important event of this period, which it will be convenient to notice here, was the treaty with Belgium. It was desirable that the relations between that country and the Zollverein should be as amicable as possible, since a great part of the German import and export trade passed over the Belgian railways and through Belgian ports. For the purposes of negotiations, then, the Belgian Government was in a strong position owing to this fact, and also because its geographical situation enabled it to play off France against Germany. The result was the treaty of 1844, by which the Zollverein gave a reduction of duties on commodities coming from Belgium, and on some articles of Belgian origin (particularly iron); whilst Belgium, on its side, guaranteed the existing freedom of transit for goods coming from or going to the Zollverein, and established certain preferences for German products. The shipping of the two nations was put on an equal footing. Weber holds that the treaty chiefly benefited Belgium, since she gained easier access to German markets with her iron, whilst the Zollverein got no new concession of importance; and he adds that Prussia would never have yielded so much but for the fear of Belgian alliance with France[1]; but the Zollverein had secured freedom of transit for its goods through Belgium, and the establishment of an entrepôt at Antwerp, and these were matters of no small importance.[2]

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[1] Weber, pp. 213, 214.

[2] Zimmermann, i. p. 278.

CHAPTER II

THE BEGINNINGS OF PROTECTION AND THE FIRST CRISIS

During the early years of the Zollverein there had been only a few increases in the customs duties,[1] but after 1840 there was a marked upward tendency in the tariff rates, due to a distinct movement towards Protection, which found its scientific expression in the writings of Friedrich List, and particularly in his *System of National Economy*, published in 1841. His doctrine, that protection is necessary to enable a nation to pass from the purely agricultural condition of society to a higher stage of combined industry and agriculture,[2] that the encouragement of "production" was less immediately important than the development of "productive powers," and that if Germany was to make economic progress in the face of the overwhelming industrial supremacy of Great Britain, a reasoned policy of Protection was essential—this doctrine found ready acceptance in the industrial circles of the Zollverein. List pointed always to the example of Great Britain, whose long-continued policy, he held, had been to secure the home market for its manufacturers, to encourage the increase of "productive powers" by the free admission, not of foreign goods, but of foreign workmen, and to bear a temporary loss for the sake of an ultimate gain. This policy had laid the foundation of Great Britain's industrial power, and he called on Germany to follow the example.[1]

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[1] On cotton and woollen yarn from six to eight thaler per centner, and on the finer qualities of bar iron from one thaler to three thaler.

[2] "In short, history and statistics alike prove the correctness of the dictum expressed by the ministers of George I.: that nations are richer and more powerful the more they export manufactured goods and import the means of subsistence and raw materials. In fact, it may be proved that entire nations have been ruined merely because they have exported only means of subsistence and raw materials, and have imported only manufactured goods" (List, *System of Political Economy*, trans. Lloyd, p. 218).

The practical demand for the application of List's doctrine came from the manufacturers of iron and the cotton-spinners, and over this proposal there arose, between 1841 and 1850, the first real struggle between the rival policies of Free Trade and Protection. In the case of the iron producers, the call for increased duties was due largely to the over-production in England and the consequent reduction of the prices of English iron in the foreign market to a point at which continental manufacturers could not compete with them. There was a great increase in the importation of iron into Germany, from 0·9 million centner in 1839 to 2·6 million in 1842, and 4·2 million in 1843. In 1839 the German iron works produced 78 per cent. of the total amount consumed in Germany, whilst by 1843 their share had fallen to 45 per cent.[1] The cotton-spinning industry had been growing rapidly in Prussia, Saxony, and the south-western states since the establishment of the Zollverein, but it was not yet firmly established, and in 1842 the import of cotton was more than double the home production. The request for protection for these two industries naturally led to a sharp conflict of interests between the producers and the consumers of the two commodities. There was a growing demand for industrial machinery, and the manufacturers were opposed to any policy likely to increase its cost; and to the producers of cotton goods (an industry which had made rapid progress of recent years, and supplied one of the chief exports of the Zollverein) an ample supply of British cotton was an absolute necessity. The division over the question was also territorial. On the whole the north was in favour of Free Trade. The attitude of the Prussian Government was determined in the main by the agricultural and commercial interests. Large quantities of agricultural produce, chiefly grain and timber, were exported, especially to Great Britain after the repeal of the Corn Laws: and on the other hand, the landowners needed agricultural machinery and feared an increase in its price as a result of the proposed higher duties; so that the Prussian Conservatives, whose strength lay in the agricultural districts, were, unlike their English contemporaries, strong advocates of freer trade. The Baltic ports—Dantzig, Stettin, Elbing, Königsberg, and others—were engaged in the export of grain and timber, and were opposed to anything which might tend to restrict trade.[1] These influences were strong enough to overcome any inclination on the part of the Prussian Government to accede to the demands of the iron producers of the Rhine province. The two great Hanse towns (Hamburg and Bremen) took the same line; both had a large trade with Great Britain and America, exporting linen, timber, minerals, woollens, glassware, and wines, and importing manufactured goods, tobacco, and colonial produce generally. Frankfurt, which was the great entrepôt for British trade, also stood firmly on the Free Trade side. Saxony was carried the same way by the influence of the traders of Leipzig and the weavers, whose industry far exceeded in importance that of the spinners. The Thuringian states followed the lead of Prussia and Saxony.

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[1] "If any nation whatever is qualified for the establishment of a national manufacturing power, it is Germany. . . . If any nation whatever has a right to anticipate rich results from a protective system adapted to her circumstances, for the progress of her home manufactures, for the increase of her foreign trade and her navigation, for the perfecting of her internal means of transport, for the prosperity of her agriculture, as also for the maintenance of her independence and the increase of her power abroad, it is Germany. Yes, we venture to assert, that on the development of the German protective system depend the existence, the independence, and the future of the German nationality" (List, *System of Political Economy*, trans. Lloyd, p. 425). For a general statement of List's view see below, pp. 65 *seq.*, and 72.

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[1] Sering, *Geschichte der preussischdeutschen Eisenzölle von* 1818 *bis zur Gegenwart* (1882).

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[1] Schippel points out that in the absence of a well-organised railway system the sea made foreign markets nearer to the lands along the Baltic than the inland territories of the Zollverein.

Brunswick and Nassau supported Prussia largely because the financial results of the Zollverein had been for them so favourable that they were unwilling to break with her.

The southern states, on the other hand, were distinctly inclined to Protection. Bavaria wavered; it was difficult for its Government to decide between the rival spinning and weaving industries, but it was carried into the protectionist movement by the personal authority of King Ludwig I., who seems to have been influenced chiefly by political considerations. Württemberg and Baden, on the other hand, were anxious for the protection of the cotton-spinning industry, which had been most successful in those territories; and they were supported by Hesse.

The conflict continued for several years and was particularly keen at the annual conferences. After the Karlsruhe Conference in 1845 feeling was so strong that Prussia was accused of being unduly under the influence of Great Britain. On the other hand, the Prussian Government had declared, as early as 1842, that the southern Governments took too narrow a view of the economic interests of Germany, and were swayed by the cotton-spinners, who were suffering from bad organisation and the over-hasty development of their industry.[1] Both sides gave way somewhat, and by 1850 the duties had been considerably increased. In 1843 the duty on certain kinds of cotton yarn was increased by 50 per cent.; in 1844 a small duty was imposed on pig-iron, hitherto admitted free, and there were slight increases on iron bars and rails. In the same year the duties on various kinds of woollen goods were increased 33 per cent., and those on gold and silver articles and leather gloves were doubled. In 1846 there were still further increases on all kinds of cotton yarn, linen yarn and twist, and various other commodities. On the other hand, however, there were reductions on a number of raw materials, and in the transit dues in 1850. It must be remembered also that the changes in the price of commodities (and there had been a very marked fall during this period) had not been followed by any corresponding change in the amount of the duties which, as already pointed out, had been fixed according to the value thirty years before of a particular quantity of each commodity. The result was that duties, which had been quite moderate originally, had now come to be in some cases almost prohibitive.[1] It is impossible to say how much further the movement towards Protection would have gone had it not been for political considerations, and particularly the problem of the relation of Austria to the Zollverein.

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[1] Zimmermann, pp. 190 and 200.

The Austrian Government, under Prince Metternich, had paid little attention to the negotiations for the formation of the Zollverein; its attempts to interfere had been unimportant, and its whole action in the matter had been marked by that complete indifference to economic questions which was its peculiar characteristic amongst the Governments of Europe. Its own tariff policy was protectionist, or rather in many cases prohibitive. But after 1833 even Metternich awoke to the danger which threatened Austrian authority in the Germanic Confederation from the growing influence of Prussia, and, as time went on, he realised that the economic leadership of that state in the Zollverein might easily be extended to political action also. In 1841 the Austrian ministers began to consider the possibility of the adhesion of the Austrian Empire to the Zollverein, but came to the conclusion that for the time being, at any rate, it was impracticable, partly owing to the supposed impossibility of abandoning the policy of high Protection, and partly because of the peculiar position of Hungary, which was not in economic union with the rest of the empire.[1] But from that time onward the problem was always under consideration, and the discussion became vigorous after the renewal of the Zollverein. In Austria itself the manufacturers clung to the protective policy, but in the community as a whole there was considerable dissatisfaction with it; and, further, the Austrian statesmen were more and more impressed by the political necessity of checking the Prussian advance. Consequently, the Austrian ~~efforts were~~ now directed towards forcing an entrance into the Zollverein, or, as a less preferable alternative, towards destroying it. These efforts became much more vigorous after the events of the revolutionary years 1848 and 1849. For one thing, the action of the National Assembly at Frankfurt, in offering to Frederick William IV. of Prussia the Imperial Crown of a Germany from which Austria was excluded, had brought home to the Austrian statesmen the extreme weakness of their position; and further, Metternich had been succeeded by one of the ablest and strongest ministers Austria has ever had, Prince Schwarzenberg.[1] Moreover, the conditions in the Zollverein were not unfavourable. It has already been pointed out that difficulties had arisen between Prussia and her colleagues in 1841 over the division of the customs revenue, and the dissatisfaction then created in the southern states had been increased by the growing preponderance of Prussia. They were, therefore, not unwilling to admit Austria, partly to keep Prussia in check—thus adopting in the Zollverein that policy of "balance" which had reduced the Confederation to impotence—and partly because they desired support for their protectionist schemes. They were, however, hampered by the knowledge that with the comparatively small consumption of imported goods in Austria any division of the customs revenues on the old lines would seriously reduce their revenues.[1] In 1849 the Austrian Government began to put forward proposals for the complete economic union of Germany and the non-German territories of the Austrian monarchy. It proposed, that is to say, the establishment of a complete industrial state, including a large part of Middle Europe and a population of over seventy millions; in this state neither the commercial, nor the industrial, nor the agricultural class would be predominant, but a tariff policy was to be adopted which would equally guard all three.

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[1] Michaelis, *Kommissionsbericht über den preussischfranzösischen Handelsvertragentwurf*, quoted in Schippel, pp. 135–7; cf. note on p. 6.

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[1] Weber, p. 244.

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[1] Prussian diplomacy had received its severest blow in the Treaty of Olmutz in November, 1850, on the questions of the Elbe Duchies and Hesse-Cassel.

The Prussian Government from the first realised the political effect of an acceptance of the Austrian proposals, and set itself resolutely to oppose her admission. The most striking manifestation of this was its action in regard to Hanover. It has already been mentioned that in 1834 Hanover had formed, particularly with Oldenburg and Brunswick, a Steuerverein in the north. Since then there had been constant disputes with Prussia, which continued even after the adhesion of Brunswick to the Zollverein, an event destructive of the effectiveness of the Northern Union, and seriously crippling Hanover by cutting her territory in two. Negotiations had been going on for years between Prussia and Hanover, but without success, owing to the excessive demands made by the latter; but now suddenly Prussia gave way, and concluded in September, 1851, a treaty in which she accepted most of the conditions which she had hitherto decisively rejected. Hanover received permission to import iron rails free of duty, and a guarantee of a larger share of the customs revenue than she would have received on the basis of population. The treaty was advantageous to Hanover in many ways, since it was clearly impossible for her much longer to maintain her economic isolation; and for Prussia also the results were of great importance. For, in the first place, the alliance with Hanover secured the connection of her territories, even if the Zollverein should break up; and secondly, it strengthened the Free Trade party, as did the treaty between Prussia and Oldenburg early in the following year.[1] But the treaty was with Prussia—not with the Zollverein; it was therefore necessary for Prussia either to force the other states to accept the treaty, or to break up the Zollverein and throw herself into union with the northern states.[2]

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[1] Thus in October, 1851, Beust declared that, for financial and economic reasons, Saxony could not leave the Zollverein; and Bavaria and Württemberg requested Austria to guarantee the maintenance of their existing revenues (Zimmermann, p. 358).

Negotiations for the renewal of the Zollverein had already begun under the terms of the treaty of 1841, and they were complicated by the simultaneous discussions with Austria. In form, the controversy arose over the procedure to be adopted. Prussia insisted that the renewal of the Zollverein, with the acceptance of the treaty with Hanover and the various modifications of the tariff required by that, or considered necessary after the experiences of recent years, must precede any treaty with Austria. The southern states, on the other hand, wished the negotiations with Austria to be completed before the settlement of the future constitution of the Zollverein, since those negotiations might mean the admission of Austria. It is not necessary to follow in detail the course of the extremely involved proceedings of the various conferences which agitated Germany from September, 1851, to April, 1853. Whilst endeavouring to secure the treaty with the Zollverein as a whole, Austria was secretly preparing the way for the formation of a union to include herself and the South German states, in the event of Prussia refusing to give way and breaking up the Zollverein.[1] The Prussian statesmen, on the other hand, as we have seen, were preparing for this and planning a new union in the north. Neither side was anxious to take the decisive step; but the current ran strongly against Prussia, partly because of the distrust inspired by her unyielding attitude, and partly owing to the superior statesmanship of Schwarzenberg, until the death of that statesman in April, 1852; after that date the action of Prussia became more decided. At the first conference of all the states of the Union at Berlin in the same month, Manteuffel, the Prussian Minister President, declared uncompromisingly the determination of his state to settle the question of the new constitution of the Zollverein before making any treaty with Austria. In May the Prussian Ministry published a note, in which it asserted that Prussia had not sought in the Zollverein any financial or political advantage, but simply the promotion of the economic progress of Germany, and expressed its willingness to negotiate with Austria for an extension of that system, but repeated that it was absolutely necessary to determine the area and policy of the Zollverein before any useful action could be taken in that direction. It condemned strongly the methods of the southern states in entering into secret relations with Austria, and lamented the bad impression which the sight of the internal discord of Germany must make on foreign nations. But neither the southern states nor Austria were convinced of the sincerity of the Prussian declarations, and as they persisted in their policy, the Prussian Government thought itself compelled to play its last card by its announcement of September, 1852, that it considered the general negotiations for the renewal of the Zollverein at an end, and henceforward would only discuss treaties with separate states. But by this time both parties were prepared to give way. On the one side, Prussia was not anxious to carry out its threat, and was beginning to realise that its obstinacy had been carried too far; whatever her statesmen might say, they could not fail to recognise the political advantages which the Zollverein had given them, and they could not afford to run the risk of a union between Austria and the southern states. Further, it was doubtful whether Hanover was prepared to go the whole way with Prussia, who was more dependent than she cared to admit on the action of that state. On the other hand, Von Beust and Von den Pfordten, the Ministers of Saxony and Bavaria and the leaders of the policy of the south, had become aware that the commercial and industrial classes of their states were doubtful as to the advantages to be gained by union with Austria alone, and were not prepared to sacrifice the economic benefits of the Zollverein for the sake of the political aims of the Governments. The conferences with Austria had been by no means satisfactory; the attempts to find a basis of agreement for the rival interests had so far failed. A more conciliatory attitude was adopted on all sides, and Prussia entered into direct relations with Austria without waiting for the settlement of the problem of the Zollverein. Progress then became rapid, and in February, 1853, a treaty between Prussia and Austria was signed for twelve years. The entrance of Austria to the Zollverein was postponed, but it was agreed that in 1860 a joint commission should be appointed to consider plans for her complete admission. Meanwhile, the two contracting parties undertook reciprocal favoured treatment of each other. Many commodities, chiefly raw and semi-manufactured goods and manufactures of small value, were to pass between the two contracting states free from any duty; and the duties on such articles as cotton yarn and goods, chemicals, iron and metal goods of all kinds except machinery, glass, agricultural produce, linen yarn, woollen and silk goods, and many other manufactured commodities were reduced 25 per cent. The terms of the treaty were to extend to all states in customs union with Prussia, and the Italian possessions of Austria.[1]

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[1] Neither Hanover nor Oldenburg had any industries to protect.

[2] Weber, pp. 294, 297.

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[1] The conferences between Austria and the Zollverein states began in January, 1852, at Vienna. Prussia and the Thuringian states were not represented; the public negotiations were in regard to the Zollverein treaty with Austria, but at the same time there were private conferences for the formation of a union without Prussia (Zimmermann, i. p. 371).

The treaty was a compromise favourable to Austria, for it was the kind of arrangement usually made to prepare the way for a complete union. But Prussia had gained time, and she had secured the renewal of the Zollverein; therefore the treaty on the whole gave general satisfaction in Germany.[2] In the following April the Zollverein was renewed by a series of treaties which made various modifications and rearrangements, but in the main continued the old conditions, and Hanover was included. The years from 1853 to 1860 have been described as the period of the stagnation of the Zollverein. The protectionist movement was satisfied for a time;[1] the treaty with Austria did not greatly develop trade between the two countries,[2] but there was a considerable growth of German industry; and the temporary defeat of Prussia seemed to put an end to any danger of the adoption of the policy of Free Trade which that state was supposed to represent. The mutual distrust inspired by the conflict left its effects, and in spite of numerous attempts at the annual conferences from various sides, no serious changes were made in the policy or administration of the Zollverein. But by 1860 the political and economic conditions had alike changed; it was necessary for Prussia to take decisive action if Austria was to be kept out of the Zollverein. The new commercial policy of the western states rendered a reconsideration of Germany's own policy inevitable, and furnished Prussia with her most effective weapon against her rival.

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[1] In the treaty there was a clause which hampered Germany for some time. By Art. iv., if one of the two contracting parties reduced the duty on a commodity coming from a third state, not in receipt of favoured treatment at the date of the treaty, then the other party could impose a duty equivalent to the reduction on all goods of that kind coming from the state which had made that reduction.

[2] Weber, p. 335.

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[1] Schippel, p. 138.

[2] The export of raw materials from Austria to the territories of the Zollverein increased somewhat; the export of manufactured goods remained almost stationary. The increased exports from the Zollverein to Austria were chiefly cotton and woollen yarn, iron and metal goods.

CHAPTER III

THE SECOND CRISIS AND THE COMMERCIAL TREATIES

The years 1861 to 1864 are filled by the second great crisis in the history of the Zollverein, and in many respects the phenomena of the former crisis were repeated. Economic and political considerations were again involved, and political aims to a large extent again determined commercial policy.

The treaty with Austria had provided for the commencement, about the year 1860, of negotiations for the admission of that state to the Zollverein. But in order that there might be any real prospect of those negotiations being brought to a successful issue, it was necessary on the one side that the finances of the Austrian Empire should be brought into order, so that when the time for negotiations came she might have a free hand, and that her protective policy should be to some extent modified; and on the other side, that the Zollverein should not follow a policy so liberal as to frighten Austria away.[1] None of these conditions were realised; for the war of 1859 and the loss of Lombardy had again brought Austrian finances into disorder, and, moreover, between 1853 and 1862, the protectionist party had regained strength, and practically none of the reforms contemplated in the treaty of 1853 with the Zollverein had been carried out.[1]

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[1] Lotz, i. p. 10.

From a purely economic point of view the Zollverein, in its endeavour to secure a large market for its agricultural and industrial products, might adopt either one of two policies. It might adopt the plan put forward long before by Bruck, of forming a large area with Austria with Free Trade within and a strong policy of Protection against all outside. In this way a large home market would be secured and a self-sufficing economic state created. Or alternatively, the Zollverein might adopt a more liberal tariff policy, and establish closer commercial relations with the western states of Europe.

The first of these alternatives was supported by the high Protectionists in the Zollverein—that is, by a considerable number of the manufacturers, especially in the iron industries, and by some of the South German states, particularly Bavaria and Württemberg, which had always advocated union with Austria, and represented to some extent in politics that "Greater Germany" party whose ideal was the establishment of a German Empire which should include all the possessions of Austria, even though many of them were inhabited by peoples not of German stock. There were great difficulties in the way of the realisation of this ideal, and the Austrian Government seems about 1860 to have lost much of its earlier interest in the matter; in 1861 it admitted that for the time the obstacles were almost insuperable.[1] The second alternative was supported by the Free Traders, or rather by those classes who desired the lessened restriction of foreign trade, and by the anti-Austrian politicians of Prussia.

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[1] Weber, p. 399.

In the late fifties there was something approaching to a real agitation for Free Trade in Northern Germany. It found its theoretical expression in the writings of Prince-Smith, to whose energy and influence was due the foundation of the German Economic Congress, which gathered together after 1858 all the reforming forces. There was an admitted need for the amendment of the tariff; no readjustment of the specific duties had been made to bring them into a more satisfactory relation to values. But the reformers desired to go further than this; they wished the amendments to be made deliberately in the direction of greater freedom of trade. Much of their political strength continued to depend on the support given to their ideas by the landowners, who wanted cheaper machinery, and also the extension of the English market for their grain. Germany was still an overwhelmingly agricultural country—at the beginning of the second half of the century two-thirds of her population were engaged in agriculture,[1] and the proportion declined only slowly up to 1870; much grain was exported from the north, especially to Great Britain.[2] The Free Trade movement took its rise therefore in the agricultural eastern provinces of Prussia, but it was supported also by the weavers, who wanted cheap English yarn, by the middle class and small officials, to whom the cheapness of many commodities was a matter of very great importance, and by the commercial classes and the seaports. On the other side, many of the manufacturers were beginning to feel that they were strong enough to do without much of the protection they had hitherto enjoyed; some of them were already largely exporting (for example, one-quarter of the produce of the woollen industry was sent abroad), and they were anxious to get rid of anything which in any way hampered their relations with foreign markets.[3] Political circumstances in Prussia itself were changing; the moderate Liberals were becoming predominant in the Parliament, and though vigorously opposing them on the question of the reorganisation of the army, the Government was quite ready to use their support for its anti-Austrian programme, and was therefore favourably inclined towards a commercial policy which commended itself to them, and would repel Austria.[4] It found its opportunity

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[1] *Ibid.*, p. 383.

[1] Voigt, in *Handels- und Machtpolitik,* vol. i. p. 141.

[2] The average value of the surplus of grain exported over that imported was estimated for 1860–4 at 35 mill. mks. (Lotz, i. p. 11).

[3] Weber, 389. In 1859 manufactured goods amounted, so far as values were concerned, to $\frac{4}{7}$ of the total export (Lotz, i. p. 52).

[4] Cf. Lotz, i. pp. 28–30.

in the necessity of dealing with the situation created by the change which had come over the economic policy of the states of western Europe, and by the altered attitude of France.

It has already been remarked that the trade relations between the Zollverein and France under the Monarchy of July had been greatly strained. A long commercial struggle had now been going on for nearly twenty years.[1] After the failure of negotiations in 1839, the July Monarchy had imposed very high duties on German goods; the Zollverein had replied in 1843 with retaliatory duties—increases on gloves, brandy, etc.—and most of these were still in force. Negotiations up to 1851 had failed, and fresh attempts after 1853 had been equally unsuccessful. In 1860 Napoleon III., by his own personal will and in spite of strong and general opposition in France, had broken with French traditional policy and made a commercial treaty with Great Britain, which "ranks with the treaty which founded the Zollverein, as perhaps the most important international event of the century in the sphere of economics."[2] By the treaty France undertook to impose on an agreed number of British products no duties higher than 30 per cent., and after October, 1864, 24 per cent.,

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[1] Zimmermann, i. pp. 161-2, 263-5, 393-5.

[2] Weber, 368. It is interesting to notice the failure of this historian's prophecy in the following sentence, written in 1871. "The impetus which this treaty gave to the customs policy of all European countries is still far from ended, is rather becoming stronger, and in all probability will end only by a complete change of the whole customs legislation."

ad valorem ; and Great Britain, on her side, undertook to abandon some duties and to reduce those on French wines. And further, both sides bound themselves to reciprocal "most favoured nation" treatment, that is to say, any tariff advantage granted by one of the contracting parties to any other state was, *ipso facto*, to extend to the other contracting party also.[1] The British treaty inaugurated a series which covered Western Europe like a net. Treaties were made by France with Belgium, Italy, Holland, Switzerland, Sweden, Norway, and other countries, and of these, the Belgian treaty, with its reciprocal reductions and provision for mutual "most favoured nation" treatment, became the model for all the others. The net result was that France had one general or "autonomous" tariff, which applied to all countries with which special arrangements had not been made; and a treaty or "conventional" tariff, with rates of duty settled by treaty with any one country and then extended to all other treaty countries by the action of the "most favoured nation" clause. Most of the nations which entered into the system were influenced partly by the desire not to let

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[1] "English industry had long reached a point where it had no further need of protection against foreign competition; in fact, the existing protection was rather a burden. Already it was necessary for it to fight in the great world markets with similar products of the great industrial states, and it could therefore easily face their competition in its own country, where all the conditions were favourable to it. It was to be anticipated that this impulse would drive other states to a reform of their strict customs systems, and in this the English industry would assuredly find its benefit. The justice of this calculation has since then been completely established" (Weber, p. 370).

Great Britain secure greater advantages in France than they themselves enjoyed, and partly by the anxiety to do something to compensate for the loss of part of the American market, owing to the United States' high protective tariff of 1861.

It became absolutely necessary for the Zollverein to take action. Great Britain generalised all the reductions which she had made in the French treaty, she extended them to the products of all countries; but France only gave reductions to the treaty states. Consequently the British and Belgian manufacturers enjoyed an immense advantage over the Germans,[1] and the trade of Germany with France was at the best only small, for, whilst it imported from that country goods to the value of 154,000,000 francs, it sent her goods worth only 82,000,000 francs.[2] The German manufacturers hoped that by a treaty they would secure a greatly developed market in France for their iron and steel, textiles, leather goods, etc., many of which were prohibited by the French "autonomous" as distinct from the "conventional" or treaty tariff. France, on the other hand, communicated early in 1861 her willingness to negotiate with Prussia, which was entrusted with the diplomatic representation of the Zollverein, and Prussia readily accepted the invitation.

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[1] *e.g.* "Edged tools from treaty states paid a duty into France of 18 francs per 100 kilo., but from the Zollverein 160 francs; the duties on paper were respectively 10 and 160 francs, on iron tools 12 and 60 francs" (Schippel, p. 171).

[2] Lotz, i. p. 37.

It was clear, however, that the treaty proposed must have much wider effects than the mere development of the trade with France. It must involve a readjustment of the whole Zollverein tariff, and to that there was no particular opposition; in fact, the work of reform had commenced already—in March, 1861, the transit duties were abolished, and also a considerable number of the export duties. But of far greater importance was the probable influence of the contemplated treaty on the relations to Austria. The Prussian statesmen realised at once that the grant of reduction of duties to France, and the establishment of "most favoured nation" terms with that country would render impossible the continuance of the special relations, under the treaty of 1853, with Austria, and would put an end to the idea of a union between Austria and the Zollverein.[1] Free Trade was to be the most potent weapon employed by Prussia in her effort to exclude Austria from the future German Empire.[2] The other states of the Zollverein realised this, and at once a struggle began.

It was, in fact, a repetition of the events of ten years before. The time for the renewal of the Zollverein was drawing near, and, just as on the previous occasion, Prussia had made a treaty with Hanover and insisted on its acceptance as a condition of the renewal of the union, whilst the southern states had striven to make the admission of Austria

[1] Weber, p. 373.

[2] Schippel, p. 172.

the basis of negotiation, so now Prussia pushed on the completion of the treaty with France in order to repel Austria. And again she insisted that the new treaty should be accepted by the other states if the Zollverein were to be continued. The treaty between Prussia and France was hastened admittedly for political reasons,[1] and was completed on 29th March, 1862, though the actual signing did not take place till the following August, after approval had been given by the Prussian Parliament. It was communicated immediately to the other Governments for their acceptance, and was speedily rejected by Württemberg, Hanover, Nassau, and Hesse-Darmstadt; Saxony alone, abandoning her old policy, now threw herself on the Prussian side. The attitude of the opposition was undoubtedly influenced by the proposal put forward in July by Austria for a complete union with the Zollverein, the preliminary condition, of course, being the postponement of any arrangement with France till after that event. To this Prussia would not accede, declaring herself bound, for her own part, to carry out the treaty. The southern states attempted, at the end of 1862, to open direct negotiations with France, but were rejected.[2] Meanwhile conferences on the renewal of the Zollverein were going on, but the difficulties were great. In November, 1862, the Prussian Government had declared definitely that it took the rejection of the French treaty by the southern states to mean their intention not to continue the Zollverein. After the conferences of the first half of 1863 on the Austrian question and the renewal of the Zollverein had produced no satisfactory result, the Bavarian Government suggested the formation of a separate union from which Prussia and her allies should be excluded, and which should come to terms with Austria on the basis of the treaty of 1853. But it soon became apparent that only Bavaria and Württemberg were prepared to go so far, and even in those states the Governments were not sure of the support of the whole of their population. After further complicated discussions, in which both sides attempted to justify themselves before public opinion, but the Prussian Government was handicapped by the impossibility of stating its real aims, Prussia, on the 17th December, 1863, gave formal notice of the termination of the Zollverein. The other states now yielded, particularly as Austria was now less inclined to push her proposals. The conferences were renewed in February, 1864, and at the same time Prussia began negotiations for a simple treaty with Austria. After some delay, on the 11th April, 1865, a treaty, containing not much more than the guarantee of simple "most favoured nation" treatment, was made with Austria, and in May, after the acceptance in the previous year by the southern states of the French treaty, the Zollverein was formally renewed.[1] In the same year treaties similiar to the one with Austria were made with Belgium, Great Britain (including her colonial possessions), and Italy, and the treaty with France, so long under discussion, at last came into force. The Zollverein had followed the example of the last-named country in its adoption of the system of "autonomous" and "conventional" tariffs.

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[1] Weber, p. 386.

[2] Schippel, p. 175, quoting Bismarck's speech on 26th December, 1862.

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[1] Its practical renewal dates from October in the previous year.

The series of treaties thus completed brought of necessity sweeping changes in the customs tariff of the Zollverein. Already, whilst the negotiations with France were in progress, but without particular reference to them, the transit duties had been abolished, and all the parties to the treaties now bound themselves to maintain this policy for the future. Further, there had been a growing inclination to abandon the idea of helping those industries for which the raw materials were produced at home by prohibiting or limiting the export of the latter. In no case was the method very effective, and in some instances, such as the leather and woollen industries, it could be shown to be harmful.[1] Most export duties were now abolished; some remained, but were reduced, as, for example, those on materials requisite for paper-making. All the contracting parties reserved to themselves the right to prohibit exports, but under strong French pressure the Zollverein agreed not to make use of this power in regard to coal.

Much more important was the reduction of duties on imports, and this presented the greatest difficulties. For the insertion in most of the treaties of the "most favoured nation" clause meant that any reduction granted by the Zollverein to one power would have to be extended to all the others. So the Zollverein in granting reductions to France had to consider, not simply their effect on the imports from that country, but how far the necessary extension to other lands, for instance, Great Britain and Belgium, would encourage the attack by their manufacturers on the German home market. The reductions made under these conditions represented a deliberate policy of Free Trade, in that they were inspired by the desire not only to promote trade relations with the contracting states, but also to improve the tariff by the removal of anomalies, and by abolishing protection wherever it seemed no longer required. So the tariff was disencumbered of duties which had no protective or financial results (as that on zinc, of which the Zollverein exported none and imported much); the duties introduced for retaliatory purposes (usually without effect) and no longer important—as the surtaxes on French goods imposed in 1842 and the duty on Russian tallow—were abolished; and all the raw and semi-manufactured materials of industry were admitted free.[1]

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[1] Lotz, i. p. 43.

On none of these things was there much difference of opinion, but the case was different in regard to manufactured commodities; some of the industries, such as the iron trades and the cotton spinners, still clung to Protection, and had strongly opposed the treaties for that reason. But their resistance was overcome, and a great number of reductions were made—the treaty with France alone had provided for 161 changes in the tariff, mostly in regard to manufactured goods. Thus the duty on cotton goods was reduced 40-80 per cent., on silk 50 per cent., on silk goods 45 per cent., on pig-iron 25 per cent., on leather 60 per cent., on leather goods 50 per cent., on sewing needles 80 per cent., on woollen cloth 60-80 per cent., on fine iron goods 80 per cent., on pressed glass 33 per cent.[1] These changes, however, were not made on any definite plan—the tariff had never yet undergone a complete and systematic revision; that might have followed, but the rapidity of the subsequent movement towards Free Trade rendered any rearrangement of the tariff unnecessary, by almost destroying it.

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[1] Lotz, i. pp. 42–4.

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[1] Weber, pp. 441-3.

CHAPTER IV

THE ZOLLVEREIN AFTER THE TREATIES—THE COMPLETION OF FREE TRADE AND THE REACTION

It is a striking testimony to the strength of the Zollverein and its hold upon Germany that during the war of 1866, when the constituent states were fighting each other, the joint customs administration went on without interruption.[1] After the speedy termination of the struggle and the destruction of all prospect of Austrian predominance in Germany, there came a reform of the constitution of the Zollverein by the treaty of 1867 between the North German Confederation on the one side, and Bavaria, Württemberg, Baden, and Hesse on the other.[2] The system of a union of independent states, each possessing the right to veto any proposal, was replaced by an organisation in which matters were decided by a majority of votes—a change generally felt to be necessary on account of the innumerable difficulties and delays which the old method had called forth. The Zollverein, thus reconstituted, now included all the German states except Hamburg and Bremen. The Customs Union Council (Zollbundesrath) consisted of fifty-eight members, of whom Prussia had seventeen, and represented the old general conference; but to it was added a Customs Parliament (Zollparlement) composed of members of the North German Parliament and representatives of the South German states.[1] The position was somewhat peculiar, for many of the states were largely dependent on the customs revenue, and this was controlled by the Customs Parliament. Consequently, while each separate state could fix its expenditure at whatever it pleased, it could not control the chief part of its revenue—a fact which gave great impetus to the movement for complete union.

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[1] Weber, pp. 462–3.

[2] It should be noted that Hanover, Electoral Hesse, Nassau, and Frankfurt, hitherto independent states of the Zollverein, had become part of the Prussian Kingdom; and the Zollverein area was extended by the inclusion of Schleswig-Holstein, also added to Prussia.

In 1871 the Franco-German War, and the patriotic enthusiasm it evoked, brought the establishment of the Empire, and at last political as well as economic union was attained.[2] In the Empire, legislation concerning customs and trade was to be a matter for the Imperial Parliament; the proceeds of the customs duties were to go to the imperial exchequer, and not to be divided between the state exchequers as before; the duties were to be collected by officials of the separate states, but under the control of the Emperor as executive official of the Empire. The new machinery speedily showed itself to be effective, and the old wearisome negotiations between the states on every proposal for a change of economic policy were at an end.[1]

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[1] Weber, p. 467.

[2] There were some slight modifications to this — Hamburg and Bremen were in the empire, but not in the Customs Union; Luxemburg is still in the Union, but not in the Empire.

The wars of 1866 and 1871 necessarily made considerable changes in the commercial relations of Germany to Austria and France. Austria was inclined to a less strongly protectionist policy, partly because her statesmen, in the reorganisation of the empire, were compelled to pay more attention to the interests of Hungary, which was mainly agrarian, exported grain and other agricultural produce, and was distinctly sympathetic to freer trade. In the treaty of 1868 between Austria and the Zollverein there were reductions made on both sides; by Austria on manufactured goods, by Germany on wine and iron.[2] ∧ In the case of France, there were fears that she might refuse to renew the treaty with Germany whilst continuing her arrangements with other powers; and it was also likely that, should Thiers remain in power, she would adopt a strongly protective policy. All that could be obtained was secured in the Treaty of Frankfurt in May, 1871, but it was little more than the guarantee of perpetual "most favoured nation" treatment; it did not secure a permanent set of low duties as the previous treaty had done. Other treaties of the same kind as this were made

[1] Zimmermann, ii. pp. 71, 72.

[2] Lotz, i. 86–8.

in March, 1868, with Spain and her possessions in Cuba, Porto Rico, and the Philippines; and in the following year with the moderately protective Switzerland, with Mexico and Japan.

The Franco-German War had one other most important economic effect. The acquisition of Alsace-Lorraine greatly increased the competition which German spinners and textile manufacturers had to meet, without bringing any corresponding development of the home market. In Germany in 1868 there were 3,000,000 cotton spindles and 37,000 weaving looms, whilst in the same year there were in Alsace-Lorraine 2,131,000 cotton spindles and 48,536 looms.[1] There was great discussion and uncertainty in Germany as to the policy to be adopted in regard to the new imperial lands; but finally it was found necessary to admit them completely into the Union, and the prosperity which followed immediately after the war made the new competition less felt than it would otherwise have been.[2]

The policy pursued by the Zollverein after 1866 was in the direction of Free Trade, and under the guidance of Delbrück the movement progressed with great rapidity. In 1868 the reductions made in the treaty with Austria were generalised; some duties were abolished, and there were reductions on certain kinds of cotton goods, linen yarn, pig-iron, unwrought steel, drugs, fine leather goods, and other commodities.[3] Then came the further

[1] Zimmermann, ii. p. 81. [2] *Ibid.*, pp. 81–5. [3] Schippel, p. 185.

reform in 1870, which simplified the tariff, reduced still further the duties on iron and steel, and freed altogether a number of articles, particularly chemicals. Finally, in 1873 there were still more changes, and the completion of the general policy of the reduction or entire abandonment of protective tariffs, and the adoption of tariffs for revenue purposes only.[1] The changes thus made were not to come entirely into force before the 1st January, 1877, but by that time the duties on iron, except on fine goods, were completely gone, as on most other things. Only a small group of highly finished commodities remained liable to duties; the German Empire had become very nearly a free-trading state.

As the duties on iron form about the best illustration of the line of movement, it may be useful to set them out here.

	TARIFF RATES						
COMMODITY	1839	1845	1865	1868	1870	1873	1877
Pig-Iron	0	2	1·50	1	0·50	0	0
Bar-Iron	6–18	9–18	5–7	5–7	3·50–5	2	0
Iron Plates . . .	9–24	18–24	7–15	7–15	5–7	2	0
Coarse Cast-Iron Goods	6	6	2·40	2·40	2·40	2	0
Coarse Iron Goods .	36	36	8–16	8–16	8	5	0
Fine Iron Goods . .	60–300	60–300	24–60	24–60	24–60	24–60	24–60

(Marks per 100 kilog.)

The establishment of this policy was the result of mingled economic and political forces. The landowners of the eastern provinces were still free traders, and so in a more moderate way were the commercial class and many of the manufacturers.[1] The opposition came, as always, from the heavy iron and spinning industries, championed chiefly by the southern states. The Free Trade movement, which was so strong that Government proposals to protect petroleum and raise the duty on tobacco for financial reasons were rejected,[2] found its political advantage in the fact that there was at the time no compact Conservative party, and that Bismarck was relying for support in his schemes for the organisation of the empire on the moderate Liberals. Unwilling to accept many items in their political programme, he disarmed their hostility by the adoption of their economic policy; but he left commercial matters largely to Delbrück and Camphausen.[3]

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[1] Schippel, p. 186, remarks that the tariff legislation of these five years was altogether in the spirit of the financial reforms of Gladstone and Peel.

The practical completion of the Free Trade policy by the cessation of the iron duties was followed by an immediate and sharp reaction. The representatives of the iron and cotton industries had never ceased their agitation against the reduction of the tariff, and in conjunction with the manufacturers of chemicals, sugar, linen, and leather, they had formed the Central Union, which commenced to work for a return to Protection. They were aided by the conditions of German industry after 1872, but still more by the changes which were coming over German agriculture and by the financial needs of the Empire.

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[1] Lotz, i. pp. 91, 92.

[2] Zimmermann, ii. pp. 219, 220.

[3] Zimmermann (ii. p. 230) complains that the whole policy at this time was a slavish imitation of the action of Great Britain, without any regard to the difference in geographical and economic conditions.

In the history of German trade after 1871 the dominant fact is the payment of the war indemnity of nearly six milliard francs (including interest) by France; much of it was paid in bills of exchange, but a great amount in gold. The results were a great increase of imports, whilst exports remained almost stationary; a very rapid rise in prices, as a result of the great influx of gold; and considerable impetus to industry from the high prices and also from the expenditure by the Government on railways and public works. There followed the usual results—excessive development of works, over-capitalisation, and over-production. In June, 1870, there were in Prussia 410 joint-stock companies with a total capital of three milliard marks; by the end of 1874 the number had increased to 2,267, with a capital of seven and one-third milliards.[1] But already in 1873 the crash had commenced; it was widespread and general, not merely in Germany, but outside. There followed a rapid fall in prices and general depression; and for a time the low level of prices in Germany kept serious foreign competition away. Then, however, the situation gradually improved; markets became steadier, and prices began to rise. But just then Great Britain entered upon a period of depression; agricultural difficulties, due to bad harvests, affected the whole country; there was a drop in the home

[1] Blum, p. 158, quoting Max Wirth's *Geschichte der Handelskrisen.*

demand for iron and textile goods, and the British manufacturers, who were over-producing as a result of the impetus given by the unusually high prices of 1872 and 1873, now sent large quantities of goods abroad at extremely low prices, that is to say, they "dumped." This counteracted the tendency of the German market towards a rise in prices, and seriously hindered the recovery of the German manufactures; hence came the renewed demand for Protection, strongest in the case of the textile and iron industries.[1]

Moreover, a very important change had come over the opinions of the landowners. With the development of means of transport and the growth of the American railways, the Russian and even American competition in the supply of grain to the European markets was beginning to be severely felt; the German landowners were not only ceasing to be exporters, but were severely threatened even in the home market. Further, the movement of population to the towns had commenced in Germany, and the more attractive conditions offered by industrial employment were beginning to deprive the landowners of their labourers. They had ceased to have any further interest in the promotion of Free Trade; in fact, they were themselves beginning to desire some measure of protection. And even some of those observers who believed that it would be a mistake to attempt to shut out the foreign and cheaper supplies of foodstuffs, were yet, like Conrad, willing to establish a moderate amount of protection for grain, by a scale of duties limited in duration and gradually diminishing, to enable the agriculturists to transfer their attention to other branches of production.[1]

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[1] Dietzel, in *Quarterly Journal of Economics*, May, 1903. Cf. Lotz, i. pp. 122–37.

How far this joint protectionist movement of agriculture and industry would have been successful, if left to itself, is doubtful; the determining factor in the situation was the condition of the imperial finances. The expenditure of the empire was increasing rapidly, and to Bismarck it seemed impossible to continue to raise the revenue required by direct taxation, which was becoming extremely burdensome. It was felt that a rearrangement of the imperial finances was absolutely necessary, both on economic and political grounds, and Bismarck resolved that his best policy was to have recourse to indirect taxation in the form of customs duties, and to substitute the proceeds of these for the contributions to the imperial exchequer from the separate states—contributions which they raised by direct taxes. The demands on the states were steadily rising; in 1874 they were 51,400,000 marks, whilst by 1878–9 they had risen to over 70,000,000 marks. The Chancellor was much influenced by these considerations, and as a member of the landowning class he was not insensible to its demands; the position of affairs in home politics had changed, and he could afford to break with the Liberals. In October, 1878, 204 members (*i.e.* a majority) of the Reichstag signed a declaration in favour of the reconsideration of fiscal policy.[1] And another fact which had considerable weight with the Chancellor was the growth of Protection in the neighbouring countries, particularly in France in the tariff of 1878.[2] The policy which Bismarck now adopted had three objects in view. First, he desired to establish (to use his own words) "a customs system which secures to the entire home production a preference before foreign production in the home market, whilst keeping within the limits imposed by financial interests." Secondly, there was to be a reform of the railway system and railway rates, to promote the transport of German goods, and to put an end to the preference given on many of the railways to foreign products; he wished to obtain an imperial railway system, and when that proved impracticable, he resolved that the Prussian railways, at least, should become the property of the state. And thirdly, he was anxious for the rearrangement of the imperial finances.[1]

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[1] Dietzel, pp. 386, 387.

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[1] Blum (p. 310) quotes from the Circular: "In view of the commercial policy of most of the countries bordering on Germany, with the knowledge of the absence of a German customs tariff and the evil effect of this on national well-being, and on account of the continuance of the crisis in German industry and agriculture (the signatories) believe a reform of the tariff, based on the result of careful investigations and expert balancing of interests, to be absolutely necessary. . . . Although holding diverse views as to commercial policy, the signatories are agreed on this fundamental point—that the difficult problems of German commercial policy cannot simply be solved by phrases about Free Trade and Protection, but that it is much more necessary to reconcile the real and supposed conflicts of interests by the exercise of a scientific, patriotic, and reasonable spirit."

[2] Lotz, i. pp. 146–9.

The argument for the new policy was set out in a letter addressed by the Chancellor on 15th December, 1878, to a committee appointed by the Bundesrath to consider the revision of the tariff. The financial object of tariff reform, according to this memorandum, was to be the reduction of direct and the increase of indirect taxation; and the Chancellor calculated that if the future import duties were to average 5 per cent. *ad valorem*, the increased revenue would amount to about seventy million marks, or almost exactly the amount which in the year 1878–9 was contributed by the separate states to the imperial exchequer. To secure this result it was necessary to return to the principle of the liability to taxation of all foreign products crossing the frontier, with the exception of those materials for industry which Germany either did not produce at all, or produced only to an inadequate amount. This proposal the Chancellor proceeded to justify on the ground of the economic interests of the nation. "I leave undecided the question whether complete mutual freedom of international commerce, such as is contemplated by the theory of Free Trade, would not serve the interests of Germany. But as long as most of the countries with which our trade is carried on surround themselves with customs barriers, which there is still a growing tendency to multiply, it does not seem to me justifiable, or to the economic interest of the nation, that we should allow ourselves to be restricted in the satisfaction of our financial wants by the apprehension that German products will thereby be but slightly preferred to foreign ones." Protective duties for particular industries he thought likely to cause difficulty and arouse hostility, but a customs system protecting the whole home production would "in no way appear partial, because its effects would be more equally spread over all the productive circles of the land than is the case with a system of protective duties for isolated branches of industry. The minority of the population, which does not produce at all, but exclusively consumes, will apparently be injured by a customs system favouring the entire national production. Yet if by means of such a system the aggregate sum of the values produced in the country increase, and thus the national wealth be on the whole enhanced, the non-producing parts of the population—and especially the state and communal officials who are dependent upon a fixed money income—will eventually be benefited." He therefore proposed the maintenance of the existing duties and their possible increase, and the introduction of new duties; and he held that, except in cases where the foreign commodity was not produced in Germany and was indispensable, the greater part, if not the whole, of the import duty would be borne by the foreigner. And in any case a small duty of from 5 to 10 per cent. would only be one of the forces affecting prices; it would probably not do the consumer any harm, and would do the home producer some good. In regard to agriculture, the Ministry, in the memorandum which accompanied its definite proposals, declared that the duties were so small that they could not be regarded as protective to any considerable extent, and would not diminish, and still less exclude, the import of foreign grain; but they would check the swamping of the German market by the surplus products of other lands, and make German agriculture better able to hold its own, even if the general price of grain should fall. Even granted that the result of the new duties be an increase in the price of the necessaries of life, the Government asserted that this would be corrected ultimately by the increase of home production and by the greater demand for labour and consequent rise of wages.[1]

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[1] Blum, pp. 305, 306; cf. Dawson, pp. 47–54.

The Chancellor was supported by the iron and textile industries and their allies, and by the landowners and the agrarian party generally. He was opposed by the exporters, who feared retaliation (though this opposition was somewhat weakened by the growing tariffs of foreign powers), by the two great seaports, which dreaded the dislocation of their trade, and by the municipalities, which, on the great Municipal Day at Berlin, where seventy-two town councils were represented, protested strongly against any policy likely to cause an increase in the price of food.[1] The National Liberals led the opposition, but they were a declining party, and they had no hold on the workmen ; the Socialist movement was growing rapidly, but its leaders seem to have been disinclined to take any vigorous action. Thus in 1876, the Socialist Congress at Gotha declared that "the Socialists of Germany are indifferent to the controversy raging in the proprietary classes as to Protection and Free Trade; the problem is a practical one, and must be so considered in each particular case." And some of the Socialist leaders were apparently inclined to take the line that a protective tariff might increase the demand for labour in the home market, and consequently bring some benefit to the workmen, though, on the other hand, they disapproved of proposals which tended to raise the price of food.[2]

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[1] See passages quoted in Schippel, pp. 230–2.

In spite of a considerable amount of opposition, the tariff proposals were carried,[3] not, however, before the agrarian party, which held the political balance, had forced the Government to increase considerably the duties originally proposed on agricultural produce. The tariff ultimately adopted dealt with forty-three groups of commodities, and retained the system of specific duties, that is to say, duties levied on a given quantity of each commodity, and not changing with the changes in value of that quantity. In fact, the whole tariff system was inelastic, defective, and unscientific; in particular it did not take sufficient account of the complications of industry, and lacked adaptability.[1] The new policy was based on the principle of moderate protection for agriculture and industry alike. The British protective system, up to 1846, had been maintained chiefly for the sake of agriculture; the German protective system from 1848 to 1860 had been dictated by the interests of manufacturers; now an effort was to be made to harmonise the two, and to give a fair measure of protection to all. And at this point it will be convenient to examine the attitude of the German economists towards national fiscal policy up to the establishment of the new tariff.

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[1] Blum, p. 330.

[2] For a sketch of the Socialist attitude towards the problems of tariff policy, see Schippel, pp. 323-52.

[3] The details of the controversy may be read in Zimmermann, ii. pp. 271-300; and Lotz, i. pp. 163-74.

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[1] Schumacher, *Verhandlungen*, pp, 157, 158.

CHAPTER V

THE ATTITUDE OF THE ECONOMISTS

At the outset of a survey of the movement of economic thought in Germany in the last century, it is necessary to remind ourselves of two very important influences which have dominated the whole of German political thought during that period. The first of these is the idea of the paternal state—an idea based on the historical fact that the Prussian State is the creation of a series of strong rulers, such as the Great Elector, Frederick William I., and Frederick II., working by means of a powerful and highly centralised bureaucracy. For centuries the nation looked for impetus and initiative in all departments of national life to the monarchs, and on the whole it rarely looked in vain. The second great influence is that of the desire for national unity — a desire disappointed at the War of Liberation, but ever growing in strength, attempting to realise itself in the abortive movements of 1848–9, and at last triumphant in 1870. The effect of these two ideas has been a general sympathy on the part of all German writers on economics and politics towards

State action, and an inability amongst economists to keep their discussions free from political considerations.

Most of the German economists of the early years of the nineteenth century were followers and interpreters of Adam Smith, and the most important representatives of this school were Rau, whose *Lehrbuch* was published between 1826 and 1832, and Nebenius, the official of Baden, who, it will be remembered, played a considerable part in the foundation of the German Zollverein.[1] But as early as 1809 a note of revolt against the doctrines of Adam Smith was sounded by Adam Müller, whose *Elemente der Staatskunst* was published in that year. His criticism of Adam Smith is based chiefly on his own conception of the State as representing the "totality of national life." Too much regard, he held, is paid by Adam Smith to the individual and to the immediate production of exchange values; and he complains that the collective interests of the community, the maintenance of collective production in the future, and the social well-being of the workers are almost entirely ignored, and that Adam Smith neglects to point out "the necessary counterpoise and completion of the division of labour," namely, the principle of the "national combination of labour." For Great Britain Adam Smith's individualistic economics might be adequate, and probably were; for Germany and the continental states generally a different theory of economic action and of the relation of the State to commerce and industry was absolutely necessary.

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[1] See p. 7.

Much more important and much more influential was the work of Friedrich List (1789-1846), who published his *Nationale System der Politischen Oekonomie* in 1841—a book which owed its wide-reaching success partly to its power of argument and abundance of historical illustration, and partly to its fervid patriotism and its appeal to that growing desire for national unity which animated the vast majority of the German people. It is less an economic argument than a great political appeal, and its title gives the key to its contents. Like Müller, List lays great emphasis on the distinction between "private economy" and "national economy."[1] National unity is the first essential of individual well-being, and "private economic interests, like all others, must be subordinated to the maintenance, completion, and strengthening of a nationality." Like Müller again, he emphasises the fact that it is not to the production of wealth alone that the economic policy of the nation should be directed, but to the creation of many-sided productive powers, and the harmony and balance of the three branches of national economic action—agriculture, manufacture, commerce. In this latter idea of the balance of the three departments of economic activity we may detect traces of the influence of one of the most remarkable works of Fichte, whose *Geschlossene Handelsstaat*, published in 1800, sets forth a scheme of a self-contained socialistic state, in which perhaps the most important task of the Government is to maintain the balance between the producers of food and raw material, the producers of manufactured goods and the merchants, and to prevent the predominance of any one group over the others; from this ideal state foreign trade must be excluded, because it is certain to tend to destroy such a balance. But whilst he desired to maintain agriculture, List also held most strongly that industrial development is essential to any community which desires to attain to the highest possible level of civilisation.[1] To enable industries to grow up, protection by tariffs and all possible forms of governmental action is necessary until such time as the manufactures are strong enough to stand alone and to contend effectually with foreign competition. This is the "infant industries" argument for Protection; but it will be noticed that even List did not contemplate the maintenance of Protection as a permanent policy—the ultimate ideal for each state is (in his doctrine) that by these "educational tariffs" it should at last become strong enough to cast off trade restrictions.[1] But in spite of the increase of prosperity and growth of industrial activity in Germany since the establishment of the Customs Union, Protection could reasonably, at the date of List's book, be thought necessary to enable the rising industries to develop in face of the overwhelming industrial power of Great Britain.

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[1] List, *National System of Political Economy* (translated by Lloyd), chap. xiv. "The foreign trade of a nation must not be estimated in the way in which individual merchants judge it, solely and only according to the theory of values (*i.e.* by regarding merely the gain at any particular moment of some material advantage); the nation is bound to keep steadily in view all those conditions on which its present and future existence, prosperity, and power depend" (chap. xii.).

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[1] "Manufactories and manufactures are the mothers and children of municipal liberty, of intelligence, of the arts and sciences, of internal and external commerce, of navigation and improvements in transport, of civilisation and political power. They are the chief means of liberating agriculture from its chains, and of elevating it to a commercial character and to a degree of art and science, by which the rents, farming profits, and wages are increased, and greater value is given to landed property. The popular school has attributed this civilising power to foreign trade. . . . If, however, trade in the manufactures of far distant lands exercises admittedly so beneficial an influence on our agricultural industry, how much more beneficial must the influence be of those manufactures which are bound up with us locally, commercially, and politically" (List, chap. xii.).

Two years after the publication of List's great book, there appeared the first work of the school which was to exert the most potent influence on German economic thought for the remainder of the nineteenth century—the historical school. In 1843 Roscher published his *Grundriss*, and this was followed in 1848 by Hildebrand's *Die Nationaloekonomie der Gegenwart und Zukunft*, and in 1853 by the book of Karl Knies entitled *Die Politische Oekonomie von Standpunkte der geschichtlichen Methode.* These various works formulated the general principles on which the new school has worked, and the principles have been applied since that time by an ever-increasing army of students and investigators, who have devoted themselves chiefly to historical inquiry and the collection of the facts of economic history, and to the deduction from the results so obtained of principles which may serve as a guide for the economic action of communities, and particularly of their own country.

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[1] See below, p. 72.

The historical school has on the whole always thrown its weight on the side of Protection, at least for Germany. It does not regard either Free Trade or Protection as an ideal, except in so far as universal Free Trade is a far-off goal, desirable, but only to be reached when the whole political character of the world is changed. Both Free Trade and Protection have their uses in the different stages of national development. "The fundamental propositions," set forth by Knies and adopted by all the historical school, "are that the economic constitution of society at any epoch on the one hand, and on the other the contemporary theoretic conception of economic science, are results of a definite historical development; that they are both in vital connection with the whole social organism of the period, having grown up along with it and under the same conditions of time, place, and nationality; that the economic system must therefore be regarded as passing through a series of phases correlative with the successive stages of civilisation, and can at no point of this movement be considered to have attained an entirely definite form; that no more the present than any previous economic organisation of society is to be regarded as absolutely good and right, but only as a phase in a continual historical evolution; and that in like manner the now prevalent economic doctrine is not to be viewed as complete and final, but only as representing a certain stage in the unfolding or progressive manifestation of the truth."[1] Given the particular conditions of Germany, most of the writers of the historical school have held that their country was at the time of the Bismarckian tariff legislation of the late seventies in the stage where protection and vigorous State action in regard to commerce and industry were necessary, and their general views are best represented by the greatest of living economic historians, Professor Gustav Schmoller. In his *Mercantile System*, published in 1884, Professor Schmoller has given a clear exposition of this theory, though in an elaborate historical setting. He traces the development (with special reference to Germany) of the economic unit from the village through the town and the territory to the state; "political organisms and economic organisms are by no means necessarily conterminous; and yet the great and brilliant achievements of history, both political and economic, are wont to be accomplished at times when economic organisation has rested on the same foundation as political power and order."[2] Like Müller and List, and like all the members of the historical school, he emphasises the moral element, and the need for the consideration of the general interest of society. "All economic and political life rests upon psychical mass movements, mass sentiments, and mass conceptions, gravitating around certain centres."[1] "The idea that economic life has ever been a process mainly dependent on individual action—an idea based on the impression that it is concerned merely with methods of satisfying individual needs—is mistaken with regard to all stages of human civilisation, and in some respects it is more mistaken the further we go back."[2] So the municipal economic policy of the Middle Ages, in spite of its local partiality and prejudices, was fully justified so long as the towns were the most important forces on the side of civilisation and economic progress. Later the place of the towns was taken by the territories, striving to make themselves into self-contained and self-conscious economic units. "What to each in its time gave riches and superiority, first to Milan, Venice, Florence, and Genoa, then later to Spain and Portugal, and now to Holland, France, and England, and to some extent to Denmark and Sweden, was a *state* policy in economic matters, as superior to the territorial as that had been to the municipal. . . . It was not only a question of state armies, fleets, and civil services; it was a question rather of unifying systems of finance and economy which should encompass the forces of millions and whole countries and give unity to their social life."[3] And this is the true conception of mercantilism; it is, in fact, a great policy of national construction, "state making and national economy making at the same time. . . . The essence of the system lies not in some doctrine of money or of a balance of trade; not in tariff barriers, protective duties, or navigation laws, but in something far greater:—namely, in the total transformation of society and its organisation, as well as of the state and its institutions, in the replacing of a local and territorial economic policy by that of the national state."[1] And so to Professor Schmoller the practice and theory of the European states in the first half of the nineteenth century, as expounded by List, had a truer relation to their actual economic conditions than had the theories of Adam Smith.[2]

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[1] Ingram, *History of Political Economy*, p. 203.

[2] Schmoller, *The Mercantile System* (translated by W. J. Ashley).

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[1] *Loc. cit.*, p. 61. [2] *Loc. cit.*, pp. 3–4. [3] *Loc. cit.*, pp. 48–9.

But this doctrine of Protection is a very relative one; it all depends on the particular condition of a country at a given time. The policy of Bismarck in his tariff legislation may, on this reasoning, have been a sound one for Germany twenty-five years ago, when it was necessary to take all possible steps to consolidate the Empire and promote its economic development. It is defensible on precisely the same principles as those which led Adam Smith to defend the old Navigation Acts; but this very fact would condemn merely protective tariffs as a permanent policy. There is a higher stage of development, when the infant industries have become adult and are able to fight their own way in the world. To give them permanent protection is to keep them in perpetual tutelage. List himself wrote that "a nation which has already attained manufacturing supremacy can only protect its own manufacturers against retrogression and indolence by the free importation of the means of subsistence and raw materials and by the competition of foreign manufactured goods."[1] England, he argued, had by 1841 reached the highest stage of development, and for her Free Trade was the right economic policy.[2] So also

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[1] *Loc. cit.*, pp. 50–1. [2] *Loc. cit.*, p. 60.

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[1] List, *loc. cit.*, chap. xv. The previous passage is interesting: "England will then give up the idea that she is designed to monopolise the manufacturing power of the whole world. She will no longer require that France, Germany, and North America should sacrifice their own manufactures in consideration of the concession by England of permitting the import, duty free, of agricultural products and raw material. She will recognise the legitimacy of protective systems in those nations, although she will herself more and more favour Free Trade," for the reason given above. He adds that England will cease to urge foreign nations to become Free Traders; "she will herself permit competition without regard to the foreign systems of protection."

[2] "Finally, history teaches us how nations which have been endowed by nature with all resources which are requisite for the attainment of the highest grade of wealth and power, may and must—without on that account forfeiting the end in view—modify their systems according to the measure of their own progress: in the first stage, adopting Free Trade with more advanced nations as a means of raising themselves from a state of barbarism, and of making advances in agriculture; in the second stage, promoting the growth of manufactures, fisheries, navigation, and foreign trade by means of commercial restrictions; and in the last stage, after reaching the highest degree of wealth and power, by gradually reverting to the principle of Free Trade and of unrestricted competition in the home as well as in foreign markets, that so their agriculturists, manufacturers, and merchants may be preserved from indolence and stimulated to retain the supremacy which they have acquired" (chap. x.). He adds that Great Britain alone appeared (in his time) to have reached this final stage.

Professor Schmoller writes: "That age could begin to think and act in the spirit of Free Trade which had left so far behind it the toilsome work of national development that it regarded its best results as matters of course";[1] and most of the other members of the German historical school of the present day seem to regard German industries as having reached the stage in which they no longer have need of what List called "educational tariffs" (Erziehungszölle).[2] Where they do defend the maintenance of the tariffs against the importation of manufactured commodities, they do so, as we shall see later, on entirely different grounds.

The German historical school has taken up also an altogether different attitude towards State action from that adopted by the older English economists. They allow a very large sphere of action to the State, and the term applied to so many of them—"Socialists of the Chair"—means that they go a considerable way towards that form of socialism which in its origin is associated with the name of Ferdinand Lassalle. As a philosophic doctrine, however, it is much older than that writer. Fichte had opposed to the "security" theory of the State the proposition that "it is the duty of the State to give each man that which is his due, then to establish him in the actual possession of his property, and then to safeguard him therein."[1] Many of the followers of Hegel, whose philosophic teaching tended "to glorify existing institutions, to see in Church and State the objective embodiment of the Absolute Idea,"[2] had regarded the Prussian State as the instrument appointed to bring about the social reformation. The term "state socialism" was adopted in Germany to indicate the antithesis to revolutionary socialism, and to mark a policy of reform, not by the destruction, but by the utilisation of the existing state organisation. So in Professor Wagner's articles on "Finanzpolitik und Staatsozialismus," published in 1887, it is asserted that "the chief aim of the State at present—in taxation and every other form of its activity—ought to be to alter the national distribution of wealth to the advantage of the working class. All politics must become social politics; the State must turn workman's friend."[3]

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[1] Schmoller, *loc. cit.*, pp. 61-2.

[2] Cf. Schacht, "Inhalt und Kritik des Zolltarifentwurfs" in Schmoller's *Jahrbuch*, 1902; and Wagner, *Agrar- und Industriestaat*, 2nd ed., p. 223.

This does not mean merely the protection of the worker by factory legislation and his relief in time of poverty by the Poor Law system; it includes the ownership of railways and other industrial enterprises by the State, the undertaking by the State of whatever enterprises are desirable, but cannot be, or are not likely to be, undertaken by private individuals or companies, and the establishment of State-aided compulsory insurances against sickness and accident, and State systems of old-age pensions. This state socialism found its expression in the social legislation of Prince Bismarck, which was inspired partly by a genuine interest in social reform, and partly by a desire (not in the least successful) to outbid the Social Democrats for popular favour.[1]

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[1] Fichte, *Der Geschlossene Handelsstaat*, bk. i. chap. i.

[2] Russell, *German Social Democracy*, p. 2.

[3] Rae, *Contemporary Socialism*, p. 387.

A most important and beneficial influence was exercised on the industrial development of Germany by the new railway policy. The older State action in this matter had taken the form of subventions to private companies, and the purchase or direct construction of railways to only a limited extent. In 1875 eight lines were owned, and eight others were managed by the Government, and thirty were privately owned and managed. The constitution of the Empire provided for the imperial control and supervision of railways, the building by the Government of railways "considered necessary for the defence of Germany or for the purpose of general commerce," and the settlement of railway rates. An Imperial Railway Board was set up in 1873, and Bismarck secured the passage through the Prussian Parliament of a law enabling the Government to transfer the railways of that state to the empire. This was intended to show an example, but the smaller states would not take the same line; and consequently, with the exception of those in Alsace and Lorraine, the railways remained the property of the several states. The Prussian Government then set to work to buy up the lines in its own territory; between 1879 and 1882 about six thousand miles were bought, and the process was continued, until, in 1902, the Prussian State railways were over nineteen thousand miles in extent. In the Empire, as a whole, the state Governments between them owned in 1900 railways over twenty-eight thousand miles in length.[1] Not only has this policy of State ownership been financially extremely beneficial, but it has enabled the Governments to establish a scientific and coherent system of railway rates, which promotes, instead of hampering, trade.

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[1] For a detailed description of this policy, see Dawson, *Bismarck and State Socialism.*

The Chancellor's policy of social reform was exemplified by the Sickness Insurance Law of 1883, with its complement the Accident Insurance Laws of 1884 and 1885, and the Old Age and Infirmity Insurance Law of 1889 (now replaced by the enactment of 1899); these applied to the working-class population of the whole Empire, and there could be no contracting-out. Under the Sickness and Accident Laws, every manual worker and every person whose salary is below a certain amount must insure in some fund; usually he pays two-thirds and his employer one-third of the weekly contribution, and in return he receives free medical treatment and sick-pay during illness. The Old Age Insurance system, which includes provision for permanent incapacity arising from ill-health, follows the same general lines; it is compulsory on all persons in receipt of incomes of less than £100 a year, with certain small exceptions, and is optional for a large number of other persons.[1] The obligation to insure begins at sixteen years of age; employer and employed pay an equal share of the premium; the pension, to which the State gives a subsidy of £2 10*s.* per annum, can first be claimed at the age of seventy, or in the case of permanent disablement by ill-health, after five years' insurance.[2] The schemes have hardly yet passed out of the experimental stage—it is not yet twenty years since they came into force, but there can be no question that they have constituted the most serious and most successful attempt yet made to deal with the problem.

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[1] *The Statesman's Year-book,* 1903, p. 674.

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[1] It was estimated at the occupation census of 1895 that over 12,000,000 persons were liable to insurance under this law (Board of Trade Report, p. 15 n.).

[2] For full details on the whole subject, see the Board of Trade Report, 1899, and especially Brooks' Compulsory Insurance Report of the United States Commissioner of Labour.

CHAPTER VI

GERMAN COMMERCIAL POLICY TO 1894

For some years after the adoption of the new tariff in 1880, German foreign trade remained almost stationary in value, and even declined a little. The following table shows the movement of imports and exports (exclusive of the precious metals) of Germany for the period 1880–91 in million marks :—[1]

Year.	Import.	Export.
1880	2,819	2,893
1881	2,962	2,975
1882	3,128	3,188
1883	3,263	3,270
1884	3,260	3,203
1885	2,937	2,859
1886	2,877	2,984
1887	3,111	3,134
1888	3,271	3,204
1889	3,990	3,165
1890	4,146	3,327
1891	4,151	3,176

It will be observed that for the five years 1880 to 1884, the average value of imports was 3,086 million marks, whilst the average for the next four years was 3,049 million marks, or about two million pounds a year less; the average of exports was for 1880 to 1884, 3,106 millions, and for 1885 to 1888, 3,045 millions, or about three million pounds less. After 1888 the figures are not altogether comparable, because of the inclusion of Hamburg and Bremen, which, though long under negotiation, had been delayed by the return to Protection.[1] It will be noticed further that after 1888 there was a sharp rise in imports, whilst exports remained at about the same level, and the excess of imports over exports became very large.

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[1] *Statistisches Jährbuch für das Deutsche Reich*, 1892, p. 38.

For the imperial exchequer the effects of the new customs system seem to have been altogether satisfactory. In 1877–8 the net revenue from the customs was 103·7 million marks, or 2·4 marks per head of population; by 1883–4 the amount had risen to 189·7 million, or 4·2 marks per head; and in 1889–90 a total was reached of 357·7 million, or 7·3 marks per head. The contribution to the imperial exchequer from the separate states, which had reached 70 million marks in 1878–9, sank rapidly until in the year 1882–3 the customs revenue not only supplied an amount equal to the old contributions, but provided a surplus which could be distributed amongst the states; and in 1884–5 nearly 41 million marks were available for this purpose.[2]

After 1880 the most noticeable feature in the

[1] Zimmermann, ii. p. 98.

[2] Blum, p. 306.

history of the German tariff is the increase of the duties on agricultural products, coincident with the growth of the political power of the agrarian party. It is true that there were some slight increases in the duties on manufactured commodities, but these were not very important, and against them must be set some small reductions.[1] The agrarians complained of growing competition, and urged the necessity of protecting the food supply of the empire against the dangers of war; and they secured increases, of which the more important are shown in the following table:—

DUTY PER 100 KILO.

Commodity.	1879.	1881.	1885.	1888.
Wheat	1 mk.	—	3 mk.	5 mk.
Rye	1 „	—	3 „	5 „
Barley	·5 „	—	1½ „	2¼ „
Flour	2 „	3 mk.	7½ „	10½ „
Meat of all kinds	12 „	—	20 „	—

As regards Germany's foreign trade, the exporters had feared at the time of the establishment of the new protective tariff that they might be hampered by retaliation on the part of foreign nations. Fortunately their fears in this direction were not realised, since the Government of Prince Bismarck was able, in most cases, either to make new treaties, or to secure the maintenance of the existing treaty relations. Political influence enabled Germany between 1880 and 1888 to establish, with such Eastern Powers as China, Japan, Corea, Siam, and also with Servia and Roumania, treaties which bound those Powers to reduce some of their existing duties, or, at least, not to increase those duties on German products, without imposing any corresponding obligation on Germany herself. Of another kind were the treaties with Italy, Spain, Greece, Switzerland, in which the reductions of duties were mutual, although on the German side they were not, except in the case of Switzerland, very important. With the great states, such as Austria - Hungary, Belgium, the Netherlands, France, Sweden, and Norway, all that could be obtained was a continuance of "most favoured nation" treatment, whose importance for Germany was enhanced by the fact that France had made treaties with the other countries, which gave her certain reductions of duties, and that under the "most favoured nation" clause Germany enjoyed the same advantages. In Great Britain, under the treaty of 1865, Germany continued to receive the same favourable treatment—a privilege which was extended to her also in the British Colonies.[1] With Russia and the United States the condition of affairs was by no means so satisfactory, for both those nations were particularly interested in the export of agricultural produce, and therefore came into sharp conflict with Germany over the new tariff, which they not unnaturally regarded as directed specially against themselves. Russia had always refused to bind herself by treaties, even of the simplest kind, and from 1877 onwards her tariff wall was steadily rising—a fact which was not without influence on the movement of the German tariff between 1880 and 1890. Germany's relations with the United States had long been based on reciprocal "most favoured nation" treatment, but this had been of little value; the situation was now very strained, and the German policy in regard to agricultural products must be counted as one of the strong motives for the high protective policy adopted in America by the McKinley Tariff.

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[1] Lotz, i. 177.

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[1] *Ibid.*, ii. pp. 60-3.

On the whole Prince Bismarck was disinclined to the old policy of conventional tariffs; he seems to have been opposed to anything which would bind the hands of the Government in its defence of the commercial interests of the country. He adhered, with certain slight exceptions, to the simple system of the autonomous tariff; but by 1890 a considerable change had come over the political conditions of Germany, marked by the dismissal of Prince Bismarck and the appointment of General Caprivi as his successor. In home affairs the chief features of the new system were the abandonment of anti-socialist legislation and the attempt towards a "labour policy," illustrated by the international conference at Berlin; in parliamentary politics the important development was the rise of the Centre or Catholic party.[1] In foreign policy, the independent attitude was abandoned, and the most striking example was furnished by the Anglo-German arrangement with regard to East Africa, under which Great Britain was given a free hand there and in Zanzibar, in exchange for the surrender of Heligoland to Germany. Commercial policy was now to be modified in the same way as the result of a number of converging influences.

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[1] In 1887 the National Liberals were the largest party in the Reichstag with 99 members, the Centre came next with 98, and the Conservatives next with 80; at the election of 1890 106 members of the Centre were returned and 73 Conservatives, while the National Liberals fell to 42.

The question of the food supply had suddenly become serious. The following table shows the movement of wholesale prices for wheat and rye per 100 kilog. at Berlin, for the period 1880 to 1891 :—[1]

Year.	Wheat.		Rye.
1880 . . .	218 mks.	...	188 mks.
1881 . . .	219 „	...	195 „
1882 . . .	204 „	...	152 „
1883 . . .	186 „	...	145 „
1884 . . .	162 „	...	143 „
1885 . . .	161 „	...	141 „
1886 . . .	151 „	...	131 „
1887 . . .	164 „	...	121 „
1888 . . .	172 „	...	134 „
1889 . . .	188 „	...	156 „
1890 . . .	195 „	...	170 „
1891 . . .	224 „	...	211 . „

It will be observed that, as a result of a number of causes, the agricultural duties did not prevent a continued fall in prices until 1886, but after that year there was an upward movement which became extremely sharp with the failure of harvests in 1890 and 1891. This was particularly the case in regard

[1] Dade, pp. 27-8.

to rye, which is the chief bread-stuff for a very large part of the German population. In 1891 the Russian Government found itself compelled, in view of the acute economic distress in Russia, to prohibit the export of wheat and rye and other agricultural produce. At the same time, the difficulties of the German exporters were increased by the adoption of the McKinley Tariff in the United States and by the marked movement towards higher protection all over Europe. Most of the nations with which Germany had treaties either gave notice of their termination, or were inclined to do so, and France was also about to renounce the treaties which she had made with various countries, and by which Germany had profited.

It had become necessary for Germany to readjust her policy. It was believed to be clearly impossible for her to continue in the old way and to make no effort to influence the tariffs of her neighbours. It was therefore decided to endeavour to continue the existing reciprocity arrangements, but to elaborate them into a new series of treaties, which should return to the old principle of reciprocal reductions of duties. The agrarian party clung to the protection of the autonomous tariff, and were opposed to any modifications; but under the prevailing circumstances they were not unwilling to see a temporary reduction of the duties. What they did object to was anything which would establish those reductions for any considerable number of years. On the other hand, the growth of industry not only rendered a large and cheap food supply desirable, but made it necessary that everything possible should be done to secure a large and assured foreign market for German manufactured articles. The latter was the dominant consideration, but if German manufacturers were to export freely, foreigners must be allowed to have easier access to the German market.

"The conclusion of new international treaties with simple 'most favoured nation' treatment, without the settlement of tariffs, would indeed give Germany the possibility of securing an internal market for its own manufactures by means of an arbitrary protective tariff, but would provide not the slightest guarantee for the maintenance of that foreign market which is so essential for our export trade. In face of the world competition of the economically developed states, becoming ever fiercer with the rapid increase of production and its aids, permanent intercourse between them is conceivable only in the form of a reasonable exchange of commodities, and this presupposes again a deliberate reciprocal limitation of free action in regard to tariffs. Under the present commercial conditions, Germany cannot count on the maintenance of its export, unless by such limitations on its own side it secures to other nations the possibility of paying for its goods, wholly or in part, by their own products."[1]

The home producers, both agricultural and industrial, must consent to some sacrifices, for "concessions at the hands of agricultural nations, such as Austria-Hungary, Italy, and Russia, were to be obtained only by the reduction of certain duties on agricultural commodities; concessions at the hands of manufacturing nations, like Belgium and Switzerland, by the reduction of certain German duties on manufactured products."[1] The manufacturers as a whole supported the new policy, since they were anxious for the growth of the export trade, and did not fear foreign competition in the home markets so much as formerly; the working classes also gave their support to it, and the opposition was in the main confined to the agrarians, who were called on to make the chief sacrifices, and were unwilling to do so for any length of time.

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[1] Government Memorandum, quoted in Lotz, i. p. 87.

The new policy was inaugurated in December, 1891, by the commercial treaty with the Austro-Hungarian Empire, which for some time had been desirous of entering into closer relations with Germany, since the latter country was its most important market, taking on an average over one-half of the total Austro-Hungarian exports.[2] But at the same time, only about 10 per cent. of the German exports went to Austria-Hungary, and her imports from that country were only about 14 per cent. of the whole, so that for the purposes of negotiations Germany was in much the stronger position. Hungary was particularly interested in

[1] Dietzel, pp 367–8.

[2] Wuttke, p. 415.

the reduction of the German agrarian duties, and in Austria itself there was a reaction against the protective policy of recent years. Following the treaty with Austria came others with Italy, Belgium, and at the beginning of 1892 with Switzerland. They were all to remain in force till the 31st of December, 1903, and unless then renounced were to continue indefinitely, but were to be terminable at one year's notice from either side. The bases of all these treaties were the same—reciprocal "most favoured nation" treatment and reduction of duties. The most important changes on the German side were in the case of the agricultural duties, which were reduced below the level of 1888, but in no case to the rate of 1885; thus the duties on wheat and rye were lowered from 5 to 3½ marks per 100 kilog., on barley from 2¼ to 2, on flour from 10½ to 7¼, and on meat from 20 to 15. In manufactured articles moderate reductions were made in the import duties on joinery, glass, and earthenware, some iron goods, textiles, paper, leather manufactures, and others. In all, it was estimated that the articles affected by these reductions and by some abolitions of unimportant duties had been imported from the four countries concerned to the amount of 260 million marks on an average for the years 1888 to 1890.[1] On the other side there were general reductions of duties on German manufactured goods; and in a number of cases where reductions were not made, the contracting states bound themselves not to make an increase. The German exporters were by no means satisfied, for they had hoped to obtain greater reductions of hostile tariffs, and they overlooked the fact that they had, at any rate, prevented any further advances for a considerable period. They were, however, willing to accept the treaties, and though the agrarians made a strong opposition on certain points, they were not powerful enough to secure the rejection of the Government policy.

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[1] Lotz, ii. p. 83.

Then, however, agricultural conditions changed, and there was a fall in prices, due partly to improved harvests at home, and partly to the increase of imports to Germany from the United States and Roumania. The following table shows the movements of prices from 1891 to 1894:—[1]

QUOTATIONS PER 100 KILOG.

	1891.	1892.	1893.	1894.
Wheat (at Cologne)	23·2 mks.	19·2 mks.	16·4 mks.	14·1 mks.
Flour ,,	31·0 ,,	26·2 ,,	22·1 ,,	19·2 ,,
Rye ,,	22·2 ,,	19·1 ,,	15·2 ,,	12·7 ,,
Barley (at Mannheim)	18·7 ,,	16·8 ,,	17·7 ,,	15·3 ,,

The result was that the Government had much more difficulty in carrying the second series of commercial treaties in the latter part of 1893 with Servia, Spain, and especially Roumania. The last-named country was coming to be one of the most important sources of Germany's food supply, particularly during the conflict with Russia. In 1889 5 per cent. of the German supply of wheat came from Roumania, but in 1893 the amount had risen to 20·4 per cent., and to an even higher point in the case of rye.[1] The agrarian party were therefore strongly hostile to anything which would encourage the increase of the quantities imported from Roumania, whilst, on the other hand, the manufacturers, who sent, it was estimated, 100 million marks worth of goods per annum to that country, wanted a treaty which would still further develop their market. The new treaties, although supported by the whole force of the manufacturers, were confirmed by the Reichstag only after a most strenuous opposition from the agrarians. The conflict reached its height over the treaty with Russia, which was in some ways the most important of all. It has already been remarked that the commercial relations between that country and Germany had for some time been distinctly strained, but the trade between the two was, nevertheless, very considerable. In 1890 Russia imported from Germany goods to the value of £10,300,000—30 per cent. being for manufactured goods—and exported to her goods to the value of £27,000,000—95 per cent. of these latter being foodstuffs, raw materials, and unfinished goods.[2] In 1891 Russia sent into Germany more than one-half (53 per cent.) of the latter's total import of cereals, and this quantity taken by Germany amounted to about one-sixth of the total Russian export of cereals. Germany sent to Russia iron and steel goods, chemicals used in manufactures, coal and coke, porcelain and cement, and a very large quantity of flour. Moreover, she had a large transit trade, for a considerable proportion of the Russian supplies of raw cotton and wool came to her through Germany.

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[1] Dietzel, p. 369.

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[1] Lotz, ii. p. 110.

[2] Wuttke, p. 419, and *British Foreign Office Report*, p. 41.

Germany had two grounds of complaint against Russia. The highly prohibitive tariff, which, after eight increases of duties between 1881 and 1891, culminated in the last year in a new general scheme of duties and reached the highest point in Russian protective policy since 1850, affected all nations equally; but the discrimination against land-borne in favour of sea-borne goods hindered the competition of Germany with Great Britain in the supply of coal and iron, and in the carrying trade. Russia had hitherto stood apart from the treaty system, in her unwillingness to bind her customs tariff for any definite time, but now she was not disinclined to modify her policy, particularly as the treaties already made by Germany put her in an extremely difficult position. Those treaties had given reductions of duties on agricultural produce to other nations, and thereby they enjoyed a distinct advantage over Russia. After the conclusion of the first series of treaties, Russian corn paid a duty 43 per cent. higher than that imposed on the products of the favoured nations—Austria-Hungary, Italy, Switzerland, Belgium, in the treaties,[1] and the United States, Argentina, Servia,

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[1] *British Foreign Office Report*, p. 42.

Bulgaria, and Turkey, under the "most favoured nation" clause. Roumania was also about to be included.

Negotiations between the two Powers had commenced towards the end of 1891, by Russia proposing that Germany should grant her the terms of the conventional tariff in regard to most agricultural products, together with free entry for a number of raw materials, and offering in return to make some concessions, but not on metals, textiles, chemicals, or sugar. The German Government replied that the proposals were inacceptable, since they secured to Russia reductions on 80 per cent. of her exports, and gave practically nothing in return; it suggested, therefore, that Russia should remove the obstacles to commercial intercourse on the frontier by simplifying the customs regulations, equalise the duties on sea- and land-borne goods, and reduce the duties on about four-fifths of the tariff groups of commodities. Negotiations were continued after the control of Russian commercial policy had passed into the hands of M. Witte, who proposed to establish a minimum and maximum tariff—the minimum to be a slightly modified version of the tariff of 1891, for the benefit of those states which gave Russia "most favoured nation" treatment, and the maximum to be the same tariff increased in various cases and against various countries. In October, 1892, Russia offered to admit German goods under the minimum tariff, and to abolish the preferential treatment of sea-borne trade; and in March of the following year the German Government replied with its final proposals. It offered the conventional tariff terms in return for considerable reductions on the Russian minimum tariff, and the promotion of trade by the rearrangement of the customs regulations. On the refusal of the Russian Government to consider these proposals and the failure of an attempt at a conference of experts, the actual tariff war began. From August 1st, 1893, German goods imported into Russia became subject to the maximum tariff, which imposed on them surtaxes amounting to at least 30 per cent. on manufactured goods and 20 per cent. on semi-manufactured articles. In the same month Germany replied by imposing surtaxes of 50 per cent. on all Russian goods liable to customs duties—one result being that the duty was about 115 per cent. higher on Russian bread stuffs than on those imported from America, Hungary, Roumania, and Argentina. In return, the Russian Government again increased the tariff against German produce by 50 per cent., and raised the shipping dues against German vessels. It extended these measures to Finland; and the German Government consequently applied the 50 per cent. surtaxes to goods imported from that Duchy also. All these various increases had been made by the 16th of August, but the strain on both sides was very much too severe; early in September fresh negotiations were opened, and on October 16th the first conference was held at Berlin.

"The statistics published by the German Government show that after the outbreak of the tariff war, the German export trade to Russia had been partially paralysed. The export of locomotives ceased; the export of wrought iron was one-third of the average in the preceding year, and of cement less than one-half. And in addition to the losses of the German exporters and manufacturers, it became apparent that a large number of Germans lived by the import and handling of Russian products, and they were, of course, severely affected. The railways, which are State property, were run, on certain branches, at a loss. German ships were practically excluded from Russian ports, and the German coast towns, interested in the carrying trade, were heavy sufferers. . . . With the approach of winter the situation became worse, as the Baltic ports were closed by the ice. The large trade in extra-European goods, which had been carried on through Germany, was crippled. The transit of raw cotton through Germany for the Russian market was, in 1893, only one-half what it had been in the preceding year. And in addition to the economical losses, a grave danger was imminent. There is ample proof that the tariff war, as it proceeded, was regarded by both responsible parties as likely to lead to a state of things dangerous for the peace of Europe."[1] On the other side, Russia was suffering from the injury inflicted on her agricultural exports, particularly after the good harvest of 1893. The following table shows the movement of imports and exports between the two countries for the years 1890 to 1894 inclusive. It will be remembered that the acute struggle was in the latter half of 1893, and in the first two months of 1894.

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[1] *Report*, p. 46.

RUSSIAN EXPORTS TO GERMANY.		GERMAN EXPORTS TO RUSSIA.
	Mill. Roubles.	Mill. Marks.
1890	178	54
1891	193	58
1892	138	38
1893	133	35
1894	148	54

Both sides were now anxious to come to terms, and political motives combined with economic interests to bring about this result. Russia desired a treaty with Germany as a first step in a series of such treaties, and Germany was anxious to do something to counterbalance the growing Russo-French alliance. The outcome of this less hostile disposition on both sides was the treaty signed on February 10th, 1894. The German Government declared that German trade, commerce, and shipping were profoundly interested in the reduction of the Russian duties, and that, on the other hand, the freer importation of Russian grain would not seriously affect the German agricultural interests, since the really dangerous menace was from the United States, Roumania, and other countries which already enjoyed treaty privileges. The agrarian party fiercely resisted the treaty, but it was carried after a hard struggle.

It was a compromise. Russia received "most favoured nation" treatment, which gave her the benefit of the lower grain duties; she also secured the abolition of duties on some of her products, such as flax, oil-seed, and wool, and an advantage over the United States in the duty on oil. Germany, for her part, obtained a reduction of duties on 120 articles—as, for instance, 20 per cent. on leather goods, 17 to 20 per cent. on unwrought iron, 18 per cent. on iron machinery, 17 to 20 per cent. on pottery, 17 per cent. on paper, 12 to 30 per cent. on woollen tissues. Both parties bound themselves for ten years not to increase the duties on certain specified goods. The treaty also provided that Russia should abandon the distinction between sea-borne and land-borne goods, whilst Germany undertook that Russian goods should not be subject to higher rates than domestic goods for carriage on the Prussian State railways. The following table show the movement of trade between the two countries since 1893.[1]

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[1] These are the figures given in the *Statistisches Jahrbuch für das Deutsche Reich*, 1902, pp. 174–6, but the Russian returns give an altogether different set of figures. They are quoted in the Foreign Office Report, p. 50, and may be set out here as showing the difficulty of obtaining accurate trade statistics. (The value of the rouble has fluctuated between 2*s*. 0¼*d*. and 2*s*. 2*d*.)

	RUSSIAN EXPORTS TO GERMANY.	RUSSIAN IMPORTS FROM GERMANY.
	Mill. Roubles.	Mill. Roubles.
1893	132	101
1894	148	143
1895	179	176
1896	185	190
1897	175	180
1898	179	202
1899	164	231
1900	188	215

GERMAN IMPORTS FROM RUSSIA.		GERMAN EXPORTS TO RUSSIA.
	Mill. Marks.	Mill. Marks.
1893	353·4	184·6
1894	543·9	194·8
1895	568·8	220·9
1896	634·7	364·1
1897	708·3	372·0
1898	736·6	440·5
1899	715·9	437·3
1900	729·5	359·1
1901	729·5	345·9
1902	773·6	372·1

Thus Germany had returned to the system of the "autonomous" and "conventional" tariffs; the former applied against all those countries which had not made with her a commercial treaty providing for reciprocal reductions of duties, and the latter containing all the lower rates of duty established by treaties and generalised to treaty powers by the force of the "most favoured nation" clause. But it is important to note that the system adopted differed from that now employed by France; there the Government can increase the minimum ("conventional") as well as the maximum ("autonomous") rates at any time, whilst the German Government, in its treaties, bound itself not to increase the tariff rates for a term of years.

The Russian treaty seems to have been satisfactory in its effect, but this was by no means the case with all the others, and in particular the settlement of Germany's commercial relations with the Austro-Hungarian Empire was not followed by results equal to the expectations of the German exporters. They had hoped for a great expansion of the Austrian market, but their export of textile manufactures actually declined for some time.[1] There was an increase in respect of metals, but exports as a whole were almost stationary; they were valued at 420 million marks in 1893, 436 million in 1895, 477 million in 1896, 435 million in 1897, 466 million in 1899, 511 million in 1900. Imports, on the other hand, from Austria rose rapidly; they were 580 million marks in 1893, after a decline in 1895 they rose to 600 million in 1897, and to 730 million in 1899. The Austrian Empire sent chiefly agricultural produce to Germany, and the general effect of the treaty seems to have been to increase the competition which the German agrarians had to meet, without securing any considerable increase of market for the manufacturers.[2] The negotiations with Spain brought Germany into yet another tariff war. In 1893 a treaty had been signed between the two countries, which was accepted by the German Parliament, but rejected by the Spanish. Thereupon the German Government withdrew the "most favoured nation" treatment of Spanish goods, and subjected them to the autonomous tariff; the Spanish Government did the same for German goods. Germany, in her turn, imposed a surtax of 100 per cent. on all commodities coming from Spain. Spain then proposed in 1896 that both sides should make use simply of the lowest rates of the autonomous tariff—terms which Germany accepted. But inasmuch as France, England, Switzerland, and other countries enjoyed in Spanish markets preferences over Germany, the Government of the last-named country soon became anxious to obtain more satisfactory terms, and at the time of the purchase of the Caroline Islands, in the beginning of 1899, a fresh treaty was signed, securing reciprocal "most favoured nation" treatment.[1]

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[1] The average import of textiles into Austria-Hungary from Germany from 1892–4 was 33·8 million kronen; 1897–9, 30·8 million kronen (Wuttke, p. 439).

[2] Wuttke, p. 458.

A word must be said as to the commercial relations of Germany to two other countries, Great Britain and the United States. Ever since the treaty of 1865, Germany had enjoyed the advantages of the "most favoured nation" clause in Great Britain and in all its colonial possessions. In 1897 the Canadian Government granted a reduction of duties on British goods alone, and Germany immediately protested against this on the ground that it violated the terms of the treaty of 1865. The British Government, therefore, gave a year's notice of the renunciation of the treaty, but suggested that it would be willing to undertake negotiations for a fresh arrangement. Germany then decided to continue the treaty so far as concerned Great Britain and those of her colonies which did not discriminate between British and German goods; but against Canada she applied her autonomous tariff. This arrangement has been renewed from time to time, but so far no new treaty has been made. With the United States German relations had almost always been far from satisfactory. By the Saratoga Convention, signed in 1891, Germany abandoned many of the restrictions on the import of American meat, and gave the United States a right to participate in certain reductions of duties, whilst she received in return "most favoured nation" treatment for her sugar products. But this was not of much use to her, since the United States subsequently imposed surtaxes upon all bounty-fed sugar, and in spite of all its efforts the German Government could not secure preferential treatment.[1]

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[1] Zimmermann, ii. pp. 308, 309.

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[1] A few other treaties were made towards the end of the century, the chief being the agreement with Japan in 1896.

CHAPTER VII

THE REVIVAL OF THE PROTECTIONIST MOVEMENT, AND THE NEW TARIFF

COUNT CAPRIVI had succeeded in carrying the commercial treaties, but he had incurred the fierce hostility of the agrarians, and soon after the conclusion of the Russian treaty they were strong enough to secure his overthrow and his replacement by Prince Hohenlohe. The period from the latter's succession to office until the close of the century was characterised chiefly by the revival of the protectionist agitation, particularly amongst the agrarians. But before noticing the causes of this agitation and its results, it will be well to review some of the features of the industrial development of Germany since the foundation of the Empire.[1]

The population of the Empire increased from 41 millions in 1871 to 56 millions in 1900, and is continuing to increase to the extent of some 850,000 persons a year.[2] The imports in 1872 for home consumption were estimated at £163,000,000, and in 1902 at about £290,000,000. The exports of domestic produce were valued in 1872 at £116,000,000, and in 1902 at £240,000,000. The production of coal averaged 32 million tons a year for the period 1870–4, and 97 million tons for the period 1896-1900. In the former period the average quantity of pig-iron produced was 1·8 million tons, and in the latter period 7·4 million tons; in 1902 it was 8·3 million tons. The production of steel averaged 1·1 million tons for the period 1881–5, and 5·5 million tons for the period 1896-1900; in 1902 it was 7·6 million tons. The German merchant navy (vessels of 17½ tons and upwards) increased from 982,000 tons in 1870 to 2,093,000 tons in 1901. The annual tonnage of vessels built rose from 32,600 in 1878 (the first year for which figures are available) to 101,900 in 1901. In all the scientific industries, particularly in the production of chemicals, dyes, and colours, there has been a very marked advance—aided by an educational system which is undoubtedly superior on the technical and scientific sides to anything to be found elsewhere, and by an enlightened policy on the part of the manufacturers, such as that described in the case of the chemical trades by Professor Dewar in his presidential address to the British Association at Belfast in 1902. Much aid has been given to the industrial development of the country by a well-conceived railway transport policy, rendered easy by the State ownership of railways.

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[1] For a brief and fairly reliable sketch, see Veritas, *The German Empire of To-day.*

[2] Cf. Troeltsch, pp. 10–11.

It is important to observe also that the industrialisation of Germany is marked by the same general features as the economic history of England after the industrial revolution. There is the same rapid growth of the towns (an increase as astonishing as that of the American cities),[1] and the same decline in the agricultural population, which in 1870 was about one-half, and in 1900 about one-third of the whole, having fallen both relatively and actually. But agriculture still remains the chief occupation; according to the census of 1895, 11¾ million persons were employed in agriculture and kindred occupations, about 9 millions in industry, and about 3 millions in commerce and transport.[2]

At the same time, and as a natural consequence, there has been a constant increase of dependence on the foreign food supplies.[3] The following table shows the increase in the surplus of the amount of grain, meal, and flour imported into Germany over the amount exported:—

1881–1885	39·1	million cwt.
1886–1890	42·8	,,
1891–1895	70·1	,,
1896–1900	103·1	,,

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[1] Cf. Shaw, *Municipal Government in Continental Europe*, chap. v.

[2] Troeltsch, p. 25.

[3] Cf. Voigt, "Deutschland und die Weltmarkt' (in *Handels- und Machtpolitik*), pp. 154–79.

The prices of agricultural produce have, on the whole, steadily fallen; but there still remains a considerable difference between the various parts of the Empire, largely because of the distance in many cases of the markets from the place of production, and the difficulties of transport, in spite of the growth of German railways.[1] The following table shows some of these differences in 1902:—

	Wheat per 1,000 kg.		Rye per 1,000 kg.
Berlin	163·1 mks.	...	144·2 mks.
Danzig	162·4 ,,	...	139·4 ,,
Mannheim	174·0 ,,	...	150·3 ,,
Munich	183·3 ,,	...	151·9 ,,

Thirdly, imports greatly exceed exports. In the Free Trade period, from 1872 to 1879, the average annual imports were valued at £190,000,000, and the exports at £130,000,000; and although the latter were admittedly under-estimated, there yet remained a considerable excess of imports over exports. After 1879 the statistics were improved, and at first the new protectionist system acted as a drag. The import trade declined for a time, and in 1880 exports were slightly in excess of imports. From then till 1888 the two were in practical equilibrium, but after 1888 and the inclusion of the Hanse towns, the turn came, and the following table shows the "special trade" of Germany since 1893, in million marks:—[2]

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[1] Troeltsch, pp. 29 and 30.

[2] *Statistisches Jahrbuch*, 1902, pp. 164-6.

Year.	Imports for Home Consumption.	Exports for German Home Produce.	Excess of Imports over Exports.
1893	4,134	3,245	889
1894	4,285	3,051	1,234
1895	4,246	3,424	822
1896	4,558	3,754	804
1897	4,865	3,786	1,079
1898	5,440	4,010	1,430
1899	5,784	4,368	1,416
1900	6,043	4,753	1,290
1901	5,710	4,513	1,197
1902	5,806	4,813	993

During the same period there has been a marked increase in the import of manufactured articles. The following table gives the figures for the ten years from 1893 to 1902 in million marks :—[1]

Year.	Million Marks.	
1893	901	
1894	835	
1895	925	Average 1893–1897 = 913·2
1896	939	
1897	966	
1898	1,015	
1899	1,148	
1900	1,200	Average 1898–1902 = 1,106·0
1901	1,064	
1902	1,103	

It should be added that German industry has been characterised more than that of any other country, with the exception of the United States, by the rise of trusts, or by their practical equivalent in economic effect, the Kartels, which now number over four hundred, and, though strongest in the coal and iron industries, are gradually extending themselves over the whole range of German industry. "They are combinations for maintaining prices (and more or less for the joint marketing of the produce) by a number of concerns which retain their own independence as producers.[1] And these Kartels have notoriously sought to relieve the German market in times of depression by sending abroad below the domestic price. . . . The Kartels have, however, advanced considerably beyond the point of lower foreign prices; they have devised a plan whereby export is assisted and encouraged by the grant of bonuses by the several syndicates to their members and customers. This plan appears to have been first introduced in 1891, and it would seem to have been more systematically established in 1897. In the period of expanding trade which soon followed it was quite unnecessary, but in 1901 the reaction again came."[2] Finally, it must be pointed out that neither the tariff nor the Kartels (though it is one of the commonest claims of the latter—and of the American trusts—that they can regulate industry and give it a more equable course) have been able to guard Germany against recurring periods of acute depression, such as that through which the country passed between 1901 and 1903.

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[1] *Statistisches Jahrbuch,* 1902, p. 96.

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[1] It is in this respect that the Kartels chiefly differ from the American trusts.

[2] W. J. Ashley, *The Tariff Problem*, pp. 120-1. For a detailed description of the organisation and working of the Kartels, see Raffalovich, *Trusts, Cartels et Syndicats*, and the Consular Report for the Frankfurt District, 1903.

It has already been remarked that the closing years of the nineteenth century witnessed the revival of protectionist movements, arising chiefly amongst the agrarians. We have observed that after 1891 there was a somewhat rapid decline in the price of agricultural produce, particularly grain. This was due in part to the effects of the treaties, which opened the German market more than before to foreign grain, and partly to the good harvests. The agricultural party ascribed the fall solely to the tariffs, and until 1896–7 their great cry was the fall of prices;[1] but then a turn came, and the following table shows the movement of prices from 1894 to 1897:—[2]

QUOTATIONS PER 100 KG.

	1894.	1895.	1896.	1897.
Wheat (at Cologne)	14·1 mks.	14·7 mks.	16.2 mks.	18·4 mks.
Flour ,,	19·2 ,,	20·2 ,,	21·4 ,,	23·9 ,,
Rye ,,	12·7 ,,	12·6 ,,	13·0 ,,	13·8 ,,
Barley (at Mannheim)	15·3 ,,	15·7 ,,	16·1 ,,	16·7 ,,

After 1896 they raised the new cry of "Leutenot," declaring that the rapid development of industry was denuding the land of labourers, and that the agricultural interest was suffering from low prices because of the reciprocity treaties made for the sake of the industrial exporters, and at the same time was hampered by the withdrawal of labourers from the rural districts, which increased the agricultural cost of production. The agrarian party therefore denounced the "export orgy," and the policy which furthered the exportation of manufactured articles by the importation of agricultural produce. They put forward a demand for duties protecting all branches of agriculture—grain, cattle, garden products, etc.[1]

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[1] Lotz, ii. p. 134.

[2] Dietzel, p. 369.

Moreover, the time for the renewal of the treaties was approaching, and it became necessary for the Government to prepare for negotiations. It proposed to do so by the adoption of a new tariff which should contain higher rates of duty, and should also be much more specialised and detailed than the tariff of 1879. It believed that the higher the rates of the tariff, the better the terms which could be forced from foreign nations, and also that it was desirable to specialise the tariff rates in order to enable reductions to be made on any one article, without this involving reductions on a number of others.[2] The basis of the scheme was to be the simultaneous protection both of agriculture and manufactures; but the strong agrarian movement, which had been going on since 1893 and found its representation in the Bund der Landwirte, directed the new policy mainly in the interests of the large landowners. The result was the Bill of 1901, which dealt with 946 groups of commodities. There was a long and fierce parliamentary battle, and the new tariff was not carried till December, 1902; it is, however, not to come into force until such a time as the Government shall appoint.

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[1] Dietzel, pp. 370–3; cf. Lotz, ii. p. 137.

[2] "It frequently happens that another nation lays stress on securing a reduction of rates on certain specialties, and is disposed to pay for this concession with one equally advantageous to us. But if now the Customs Act be made up too summarily, and these specialties are bunched together with many other articles under one head, we must lower the rate on the whole group for the sake of one article. The result of that would be that third nations, having the advantage of 'most favoured nation' clauses, would profit by the reduction of the duties on the other commodities included in the same group, without having to pay an equivalent of their own therefor. The more specialised the Customs Act, the more compensation material there would be for treaties; and the more general, the less there would be" (Dietzel, p. 376, summarising the argument of the Imperial Minister of the Interior).

The principle of the new tariff is the increased protection of agriculture and industry alike, but the primary object is the improvement of agriculture; and for that purpose minimum duties, very considerably higher than the old tariff rates, are established for the chief kinds of grain. The differences are shown in the following table:—

	OLD DUTIES. (per ton).						NEW DUTIES. (per ton).					
	Autonomous Tariff.			Treaty Tariff.			Maximum.			Minimum.		
	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*
Wheat	2	10	0	1	15	0	3	5	0	2	15	0
Rye .	2	10	0	1	15	0	3	0	0	2	10	0
Barley	1	2	6	1	0	0	2	0	0	1	10	0
Oats .	2	0	0	1	8	0	3	0	0	2	10	0

The minimum duties represent the point below which the duty may not be lowered in any commercial treaties which the Government may make. "These four duties form 7 per cent. of our total import. If, however, we consider these four duties in relation only to imports liable to duties—as must be done, since we can consider only these articles which can be used for concessions—they form one-seventh of the import; and if we exclude further all colonial produce liable to duty and some other articles which are of no use in negotiations with the treaty states . . . we perceive how much is lost to us, so far as negotiations are concerned, by the fixing of the minimum tariff for grain."[1] There are increases on other agricultural produce, but no minimum is fixed for these.

As regards the duties on manufactured goods, the principles of the new tariff are (1) "the maintenance of the existing exemption of raw materials so far as these are not produced at all in Germany, or are only produced in insufficient quantity or inferior quality"; (2) taxation on semi-manufactured goods intended to be worked up for export, only to such an extent as not to interfere with the export trade; (3) increase of taxation on manufactured goods.[2] Thus raw materials, or materials only in the first stage of manufacture, are to be admitted free; for example, raw silk and once-twisted silk are exempt from duty, the duty on silk yarn is reduced by nearly two-thirds, the duties on woollen and cotton yarn and cotton thread either remain at the old level or are reduced; but rates on twice-twisted silk, which represents the employment of more labour, are increased 42 per cent. On woollen and half-woollen goods there is an increase of from 15 to 30 per cent., on cotton manufactures from 57 to 80 per cent., on leather goods 50 to 100 per cent. The rates on all kinds of iron are advanced considerably, as also on tools and all manner of machinery, with an elaborate reclassification. Of the tariff as a whole Dr. Schacht points out that its main tendencies are towards the increase of taxation on agricultural produce generally, and also towards the raising of the cost of half-finished goods. There is also a higher taxation of many manufactured goods, on the assumption that the greater the labour expended on a particular commodity, the higher should it be taxed. These principles, he adds, are due to a complete misunderstanding of the productive power of Germany; the tariff proposals will promote the production of grain and of half-finished goods, but will harm the small farming and manufactures. Yet these latter are the most important factor in the economic life of Germany to-day. The main economic problem is the question of population, and work can be provided for the rapidly increasing numbers not by the "extensive" industries of grain-growing and the manufacture of half-finished goods, but by the "intensive" industries of small farming and the manufacture of finished goods. It is essential, then, that nothing should be done to hamper German industry in any way; "we dare not adopt a policy which makes competition more difficult for us by increasing the cost of raw and semi-manufactured materials, and reduces our labourers' strength by raising the price of the necessaries of life. But that is the policy of the tariff, and thereby it not only misunderstands the real foundations of German economic life, but lays a direct burden upon the lower classes."[1] And Professor Schmoller, whilst not agreeing in all points with his contributor, adds that he shares the opinion of Dr. Schacht that the officials entrusted with the preparation of the tariff are much too protectionist, and far too much inclined to consider every new duty as a sign of progress; and he agrees also that those interests which are well organised and best represented have exercised far too great an influence in the shaping of the tariff.[2] He thinks, however, that a moderate protection for agriculture, and even a slight increase of some of the agricultural duties, is desirable, and he hopes that the tariff, in spite of defects, may, in the hands of a skilful diplomacy, offer adequate opportunities for negotiations with foreign Powers.

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[1] Schacht, in Schmoller's *Jahrbuch*, 1902, part ii. p. 342.

[2] Schacht, p. 309.

The tariff so established is to be the autonomous scale of duties, but the treaties are still unsettled, and the German Government finds itself surrounded with difficulties both at home and abroad. It is clear that after its surrender to the great landowners by the grant of minimum duties, the ministry will have to seek most of its "compensation material" in the unfixed agricultural duties and in the duties on manufactured goods. Reductions on merely industrial products would naturally not be acceptable to any country except Belgium, and high all-round protection to agriculture would render it impossible to make many treaties, since Switzerland, Hungary, Russia, and France are all interested in reductions on the various kinds of agricultural produce. But the smaller agriculturists, the "Nebenagrarien," are certain to resent reductions in duty only on those agricultural products, chiefly connected with cattle-rearing and dairy-farming, in which they are interested, and already their alliance with the "Hauptagrarien," the grain producers, is breaking up. On the other hand, the manufacturers are opposed to the maintenance of high agrarian duties, since that will interfere with the negotiations for the reduction of foreign tariffs on their productions, and at the same time they will resist any decrease of German duties on manufactured goods. The working classes, under the lead of the Socialists, though apparently still indifferent to the general question of Protection and Free Trade, are strongly opposed to the increased agricultural duties, as tending to raise the price of food. Moreover, foreign nations, particularly Austria, Russia, and Switzerland, have prepared for the negotiations by devising new tariffs with increased rates of duty.

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[1] Schacht, p. 351.

[2] Footnote to Schacht, p. 353.

The German Government may, and probably will, succeed in some measure in overcoming these difficulties as it did in 1892–4, but its task is one of the utmost difficulty, and after prolonged diplomatic discussions the issue is still uncertain.

CHAPTER VIII

RECENT ECONOMIC DISCUSSION IN GERMANY

In the long controversy which raged during the preparation of the tariff and the passage of the law through the Reichstag, it was natural that the economists should play a very conspicuous part, and they may be divided into three main groups. The thoroughgoing Protectionists are chiefly so in the interest of agriculture; they approach the subject from different standpoints, but they are represented chiefly by Professor Adoph Wagner. Then there is what may be called the Middle School, led by Professor Schmoller; and finally there is the small Free Trade group, whose most conspicuous member is Professor Brentano of Munich.

The agrarian group are all in favour of increased duties on agricultural produce in order to help the landowners and farmers, whose lamentations, as we have seen, are similar to those with which we are familiar in Great Britain. But it is important to observe that scarcely any amongst them care to base their arguments solely on the economic distress of the agrarian interests. They all advance other considerations, and their general position is summed up in a sentence of their chief economic representative, Professor Wagner: "An adequate protection for agriculture, higher than the present, would be in the general interest of the whole community, even if by its means the industrial development of the state and possibly also the growth of population should be not entirely stopped, but certainly slackened, in the all-round interests of the workers and of the economic organisation of Germany. The maintenance of a capable German agriculture means the maintenance of the German people now and for the future."[1] The argument on which this conclusion is based is elaborated in Professor Wagner's book entitled *Agrar- und Industriestaat*, and an attempt must be made here to indicate its chief propositions. There is a group of extreme agricultural Protectionists, but apparently they find it convenient to accept Wagner's arguments, at least for the present. Professor Wagner views with the greatest anxiety what he regards as the excessive industrialisation of Germany, and his views on this matter are shared by many others, such as Professor Oldenburg and Professor Pohle (Frankfort).[2] The maintenance of the industrial state requires three things: (1) that other countries are willing and able to supply agricultural products, both as food and raw materials, cheaply; (2) that these supplies can be safely conveyed to the industrial state; and (3) that the manufactured goods of that state can be assured of an adequate market in the countries which supply the food and raw material.[1] And in regard to all three of these necessary conditions there are considerable dangers now threatening. In the first place, several countries, hitherto content to remain in the agricultural stage of development, are turning their attention to industry; thus not merely is the United States (on which Great Britain has so long depended for the greater part of its food supply) becoming preponderatingly industrial, but Russia, Canada, Australia, Italy, and Roumania are all striving to make themselves into industrial communities. And this means not only that they will sooner or later consume most of their own supplies of raw material (it is, for example, inevitable that the United States should itself ultimately make use of the greater part of its production of raw cotton), but that further, as these states become more industrial their population will greatly increase, and they will make greater demands on their own food supplies. They will thus tend to use for their own purposes most of their production of food and raw material; they will have less to export, and the older industrial states, which have based their organisation entirely on the assumption that these supplies are permanent, will find themselves hopelessly crippled. Secondly, even if the supply continue, it will always be liable to be cut in time of war. To guard against this as much as possible, the industrial nations find themselves bound to incur ever-increasing expenditures on naval armaments, and a growing burden of taxation.[1] Thus between 1898–9 and 1903–4, the expenditure on the German navy advanced from six million pounds to ten and a half million pounds, and the British expenditure from twenty-four million to thirty-five million. And thirdly, even though the supplies of food and raw material continue quite unchecked, the growth of industrial competition on the one hand, and the attempt of various nations to supply their own industrial wants on the other hand, must make it ever more difficult for a manufacturing nation to dispose of its manufactured goods abroad, except by constantly cutting down its prices. These general propositions Professor Wagner supports by an elaborate examination of the sources of the German supply of food and raw material, illustrating its growing dependence on foreign countries; and by a most detailed investigation of the movement during the last forty years of the British export industry, which, he holds, is tending to become almost stationary, or at any rate to expand only at the cost of very great efforts.

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[1] Wagner, *Agrar- und Industriestaat*, 2nd ed., pp. 1, 2.

[2] See the Report of Professor Pohle, and the speech of Professor Oldenburg in the *Verhandlungen des Vereins für Socialpolitik*, vol. xcviii. pp. 183 *seq.* and 230 *seq.*

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[1] Wagner, *loc. cit.*, pp. 143 *seq.*

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[1] Cf. the strong advocacy of a powerful German navy by a group of economists in *Handel- und Machtpolitik* (ed. Schmoller, Sering, and Wagner).

He regards the whole foundation of the industrial state in the form which it has taken in Great Britain, and which it seems likely to assume in Germany, as altogether unsound. So also Professor Pohle writes: "The rule of the system of industry for export cannot long endure. That system, as Roscher already recognised, contained an element truly of temporary brilliancy, but of permanent outward and inward peril. It is an idle dream to believe that the economic future of Germany can be permanently based on the production of industrial commodities for foreign nations."[1]

The remedy is to make Germany as independent as possible of foreign nations. Not that foreign trade is to be cut off, but attention is to be paid more to the balance between the manufacturing and agricultural interests of Germany.[2] Production for the home market must be the primary consideration; the condition of agriculture must be improved before the decline has gone so far as to be irremediable, the agricultural population recruited, and the rush to the towns checked. This may mean a slackening in the rate of the increase of the population, but that would not be unwelcome. The best way to attain these ends is to give agriculture the stimulus of greater protection. "It is not to be denied that, like all the great things which a nation needs—armaments, civil administration, justice, a system of education, arrangements for the care of the economic interests of the community, etc.—so also the maintenance of the permanent economic and numerical strength of the nation in an adequate and sturdy agrarian population requires sacrifices. But we believe these sacrifices, in this case as in the others we have named, are necessary for that higher object which we have in view."[1] And Professor Wagner, whilst recognising that the increased duties which he advocates on the import of agricultural produce might, and very possibly would, mean an increase in the cost of living to the lower classes of the community, yet thinks that compensation could be given for this by employing the proceeds of the new duties in further State grants to the various pension funds. Other economists, sharing the same general opinions, take the same line in regard to the union of tariff legislation and social reform; "it appears to be beyond dispute that increased duties on grain would result in higher prices for bread, and therefore the working-class population, amongst whom the expenditure on foodstuffs may amount to 75 per cent. of their income (whilst in the case of the most prosperous class the amount may fall to 20 per cent.) must in every case, as Sering claims, receive an equivalent compensation by the extension of social legislation and the reform of the imperial taxes with more attention to social needs (*im sozialen Sinne*)."[2]

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[1] Pohle, p. 10.

[2] Wagner, *loc. cit.*, pp. 42 and 43.

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[1] Wagner, *loc. cit.*, p. 36.

[2] Von Halle, *Volks- und Seewirtschaft*, p. 11.

We may take the criticism of these last points first. As Professor Lotz has pointed out,[1] Wagner has failed to demonstrate that higher protective duties are the sole means of improving agriculture and stopping the decline of the agricultural population. The fact that in spite of their present protection the German landowners are in a bad way, is partly at least to be ascribed to their own defects, to their lack of enterprise, their want of money, and consequent disinclination and inability to make improvements. The value of agriculture to the national life is, no doubt, considerable; but it would be extremely hard to demonstrate that a reduction in the number of industrial workers and an increase in the number of the peasantry and rural labourers would tend to raise the general level of civilisation in the community. So Conrad writes: "There can be no doubt that an increase of the well-being at home and the remunerative employment of the growing population with which we have to deal, can only be expected from industry and commerce. And, consequently, it is beyond dispute that our tariff policy must have in view chiefly their interests."[2] And, as Lotz has again pointed out, while it is desirable to lessen the pressure upon the towns and to remove large masses of the people from conditions which do not make for physical efficiency, there are ways of doing this without taking them back to agriculture. It is certain that the development of means of transport and transit will, before very long, enable Great Britain and Germany to carry out, if they choose to do so, great schemes of industrial redistribution which will spread the workers over larger districts, and put an end to much of that density of population in limited areas, which is at present one of the most painful characteristics of our industrial societies.[1] As to the growth of population, it is argued by Wagner's opponents that for Germany, situated as she is, and compelled to be a great military power, it is essential to have as large a population as possible, and that such a population can be maintained only by persisting in the policy which she has so successfully followed, the policy of industrialism; and Wagner's reply, that the strength of a population does not depend so much on its numbers as on its efficiency, hardly meets the case. In regard to the corn duties, Wagner does not carry even all the protectionist economists with him; Schmoller is not particularly favourable to any increase (unless it does not unduly raise the cost of living to the workers), whilst Conrad is decidedly hostile. The latter is in favour only of the raising of the duties on cattle and cattle products (which is practically prevented by the new tariff proposals); apparently he thinks that the grain duties have even harmed the landowners, by rendering them less alive to the need of improvement in their methods.[1] Moreover, there is not wanting evidence that the agrarian protective duties have affected the cost of living in Germany disadvantageously. The following table shows the comparative prices in England and Prussia of wheat[2] per 1,000 kg. :—

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[1] *Verhandlungen des Vereins für Socialpolitik*, vol. xcviii. p. 121 *seq.*

[2] Conrad, *Jahrbücher*, February, 1902, p. 189.

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[1] On this point cf. Wells, *Anticipations*, chap. i., and Mr. W. L. Magdens's pamphlet on *Industrial Redistribution*.

	1871–1875	1875–1880	1881–1885	1886–1890	1891–1895	1896–1900
England . .	246·4	206·8	180·4	142·8	128·2	134·3
Prussia . .	235·2	211·2	189·0	173·9	165·5	160·9
Prussia more or less than England .	– 11·2	+ 4·4	+ 8·6	+ 31·1	+ 37·3	+ 26·6

In Westphalia, which is mainly industrial, the prices were in comparison with England, in 1871–5 the same, 1876–80 15·6 marks more, 1881–5 17·2 marks more, 1886–90 40·8 marks more, 1891–5 45·2 marks more, 1896–1900 30·1 marks more.[3]

It will be seen that since the introduction of the tariff policy established by Bismarck, the Prussian prices have become much higher than the English. And on the question of food prices in general a recent writer remarks that "there is in Germany no longer anything said about the great cheapness of food" (as compared with other countries).

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[1] Conrad, "Die Stellung der Landwirtschaftlichen Zölle" (*Verein für Socialpolitik*, vol. xc.). Cf. Von Halle, *Volks- und Seewirthschaft*, pp. 10–13: "If they regard a higher duty on grain as a panacea . . . the result for the agricultural classes of East Germany will be as fatal as the clinging to an out-of-date economic system was, fifty years earlier, to the planters of the southern states of the American Union; for the whole state, it would, in view of the geographical position of Germany and international relations, be even more fatal."

[2] Conrad, *loc. cit.*, p. 125.

[3] Conrad, *Jahrbücher*, February, 1902, p. 161.

"Whilst Germany had up to the seventies cheaper food than France and England, to-day in the south-west of Germany it is not only dearer than in Free Trade England, but sometimes even dearer than in France, though that country has a higher tariff on wheat than Germany, and much dearer than in America."[1]

The arguments as to the bases of the industrial state are more serious, but on the whole not more convincing. After all, it is possible to take too long a view, and to carry speculation too far. It may be perfectly true that a time will come when the whole food supply of the world will be consumed by the countries that produce it, that is to say, that unless some of the now chiefly industrial states return in some degree to agriculture the supply of bread-stuffs will not keep pace with the world's demand. But this prospect will scarcely seem very near to those who have been told so much of the unlimited resources of Canada, who remember the almost untouched possibilities of Argentina and Uruguay and other South American states, of Egypt and Northern Africa, of Russia and Siberia (under an intelligent economic policy), and of Asia Minor. Similarly, in regard to the exhaustion of raw material, it is, of course, probable that ultimately the United States will consume all its own cotton (though it is worth noting that Cobden had the same fear seventy years ago). But there are great possibilities of the production of cotton in other lands, as yet almost undeveloped, as, for example, in British West Africa. It must be a very long time before the alarming condition of things which Professor Wagner foresees is realised, and, in any case, that condition can only come about very gradually, and as it comes there will be a gradual transference back to agriculture of the labour for which industry cannot provide employment.[1] As to the question of markets for manufactured products, there is no evidence that they are declining. As a matter of fact, they are increasing even in protected countries. If we take Germany itself, the growth of her export trade means a corresponding growth in her import trade, and this increase is not merely of imports of food and raw materials, but it is in manufactured goods also. As civilisation advances with the development of the industrial state, the standard of life rises, the wants of the community increase, commodities which were once luxuries come to be regarded as necessaries, and, in spite of tariffs, they are imported from abroad. Wagner recognises that this will always be the case to a considerable extent, but seems hardly to realise how considerable that extent is. The following table sets out the recent movement of the import of manufactured goods into some protected countries :—[1]

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[1] Weile, *Der Einfluss der Deutschen Schutzzollpolitik auf die Entwickelung der Industrie und Handwerkschaft*, p. 22.

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[1] Cf., for the above criticism of Wagner and for further discussion of the problem, Dietzel, "The German Tariff Controversy," in the *Q. J. Economics*, May, 1903, especially pp. 405 *seq.*; and Brentano, *Dei Schrecken des überwiegenden Industriestaats.*

Country.	Average 1892–1896.		Average 1897–1901.
Germany	891·4 mill. mks.	...	1,078·6 mill. mks.
France	585·8 „ frs.	...	714·0 „ frs.
Switzerland	273·6 „ „	...	347·7 „ „
Italy	255·0 „ lire	...	312·7 „ lire
Austria-Hungary	398·2 „ kr.	...	456·0 „ kr.
Holland	287·8 „ gulden	...	362·4 „ gulden
	1891–1895.		1896–1900.
Russia	105·7 mill. roubles	...	166·4 mill. roubles

"Why should the result in the future be any different? Why should the decline of our export industries, taken as a whole, set in, in case Russia, Canada, Central and South America, Eastern Asia, Cape Colony, and Australia should develop manufactures at some future time? If to-day a more extensive division of labour is taking place within the industrial realm, and a comprehensive interchange of products between countries like England, France, and Germany (that is, lands, all of which lie in the temperate zone, all on about the same plane of social and economic development), is it not probable that such a division of labour and such intercourse will not only continue, but extend even further, when it includes not only the industrial states of to-day on the one side, but Russia and others on the other side? For between the former and the latter there is a much greater diversity of natural as well as social conditions than exists between England, France, and Germany."[1] And the number of countries which can ever become largely industrial is comparatively limited (few have resources of the right kind), and in the others the market for manufactured goods will always be very large. It is true that competition in those markets will become more and more keen, but this simply means that no one country is likely to have in the future such a complete industrial predominance as Great Britain used to enjoy.

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[1] *Statistical Abstract for the Principal and Other Foreign Countries*, 1903, pp. 65–71.

There is one other point in Professor Wagner's argument which should be noted. The English theory of international trade as expounded by Torrens, Ricardo, and Mill has never had much influence amongst continental economists, and Wagner attacks it on the ground that the greatest relative advantage, which it presupposes as the reason why a country should devote itself to the production of a particular commodity or group of commodities, may work extremely badly for the community as a whole. It may mean that a country will find itself limited to the production of one thing alone, and hence will lose all the advantages which come from the possession of diverse industries and a variety of technical skill; or it may mean that a country will be compelled to devote itself more and more to the production of commodities in which its advantage over its competitors is of the worse kind, namely, cheapness arising not from efficiency of method or abundance of materials, but from ill-paid and sweated labour.[1] As to the first of these alternatives, it can only be said that there is no evidence in any industrial country of any such process taking place; but on the contrary, new industries requiring great technical skill are rising in all industrial communities. The second point will be familiar to English readers in Mr. and Mrs. Webb's work on *Industrial Democracy*. They will remember that in appendix ii. of that work this argument against Free Trade—that it may, according to that pure theory of international trade which has been adopted by British economists, lead to the dependence of this country on sweated and ill-paid industries—is elaborately stated; but they will remember also the authors' strong argument that no system of protection would remedy this, but that safeguards against it must be sought elsewhere.[2] The admitted truth of the facts alleged only implies the necessity of State action to put an end to the conditions which render "parasitic industries" possible; it is difficult to see how any policy, which aims simply at restraining the growth of industry and at stimulating the development of agriculture, would be likely to remedy the evil.

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[1] Dietzel, *loc. cit.*, p. 403.

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[1] Wagner, *loc. cit.*, pp. 32 *seq.*; cf. Pohle, p. 218. "In regard to a great part of this industry (the manufacture of clothing) we are entitled to say that Germany's ruling position in the world-market can be maintained only at the expense of the workers' standard of living. Of the conditions of work which prevail in that industry we may fairly use the English expression that wages are only enough to keep 'body and soul together,' and that the hours of labour are as many as the hours of the day. In a great part of these branches of industry home employment is still predominant. The miserable condition of the home workers of the Erzgebirge, the Fichtelgebirge, the Thuringian Forest, and other German hill districts, is well known; and all these work largely, if not chiefly, for export. There are still worse conditions ruling among the home industries of the towns, and particularly in the different branches of the clothing trade" (Pohle, p. 218).

[2] "But though the existence of parasitic trades knocks the bottom out of the argument for *laisser faire*, it adds no weight to the case for a protective tariff. . . . The advocate of a protective tariff aims at excluding imports; the opponent of 'sweating,' on the other hand

We pass now to the Middle School, which, in the main, follows the lead of Professor Schmoller. With the general attitude of that group towards Free Trade and Protection we are already familiar;[1] to them "the tariff problem admits of only relative solution"—all depends on the particular conditions of time and place. They are not hostile to Free Trade, but they believe it to be only one of various policies to be applied according to circumstances. Neither are they Protectionists; in

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sees with regret the rapid growth of particular exports, which imply the extension within the country of its most highly subsidised or most parasitic industries. Hence, whatever ingenious arguments may be found in favour of a protective tariff, such a remedy fails altogether to cope with this particular evil. If the expansion of the industries which England pursues to the greatest economic advantage—say, for instance, coal mining and shipbuilding, textile manufacture and machine-making—is being checked, this is not because coal and ships, textiles and machinery are being imported into England from abroad, but because other less advantageous industries within England itself, by reason of being favoured with some kind of bounty, have secured the use of some of the nation's brains and capital, and some of its export trade. . . . In short, the absolute exclusion by each country of the imports competing with its own products would not, any more than Free Trade itself, prevent the expansion within the country of those industries which afforded to its wage-earners the worst conditions of employment" (Webb, *Industrial Democracy*, ed. 1897, ii. pp. 865–6).

[1] See above, Chapter V.

fact, their advocacy of the use of tariffs for the purposes of promoting international exchange is incompatible with protectionist ideals. Professor Schmoller holds that for the purposes of negotiation agrarian and industrial duties are alike necessary, and believing that agriculture is suffering, he would encourage cattle-rearing by duties on foreign cattle and meat, but would support duties on bread-stuffs only when they do not raise the price of bread unduly—whatever that may mean. But to him the tariff is important chiefly as a weapon. "I believe that we may draw this lesson from history, that all protective movements are closely connected with national sentiment, strivings after international authority, efforts towards the balance of power, and therefore will continue to exist so long as amongst the fully developed states there are others striving after economic development, and so long as the peoples for economic purposes have need of every weapon which stands ready for their use."[1] He points out that the increases of the tariff in the eighties were used by Bismarck in this way, and that the Bismarckian idea has now been taken up again. But the negotiation tariff is not to be a high protective tariff; it is supported by him only in order to give Germany a better position in commercial negotiations. Schmoller holds that the "neo-mercantilism" of the present day has arisen out of the nationalist movements, and is based not on List's theory of "educational tariffs" (*i.e.* the infant industries doctrine), but on the desire to possess an "international weapon" (Machtmittel). "The new period of Protection, this neo-mercantilism, has come, not because the theorists and statesmen were incapable of understanding the lofty arguments of Free Trade, not because everywhere some monopolists and large manufacturers control the Government, but out of natural nationalist tendencies, particularly in those countries with the most liberal and democratic constitutions. It is based not alone or even chiefly on the doctrine of 'educational tariffs,' but arises out of an instinctive, rather than reasoned, motive that the tariffs are an international weapon which, skilfully employed, can be of the utmost use." A strong tariff is particularly needed to enable Germany to fight the extreme protectionist policy of Russia and the United States. These views are shared by a very considerable number of the younger German economists, the most distinguished, perhaps, being Dr. Schuhmacher, head of the great Commercial High School at Cologne.[1]

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[1] *Verhandlungen des Vereins für Socialpolitik,* 1902, p. 265. The following quotations are from Schmoller's speech, pp. 264–71.

But this policy of tariffs to be employed as a means of fighting other nations which pursue a policy of exclusion has certain serious dangers. We have seen that the application of the policy against France under the Monarchy of July, against Spain and other powers, has not always produced satisfactory results. The increase of the agricultural duties by Bismarck in the eighties did nothing to promote exchange with Russia for a number of years—in fact, by the admission of the German Government itself, German trade with Russia declined steadily between 1880 and 1890; the conflict with Russia in the nineties was short and sharp, and, on the whole, in that case the policy was justified, but the risks run were very great. Moreover, these tariffs for negotiation are like armaments; when one country increases them, others do the same. As soon as the proposals for the new German tariff were published, Austria and Switzerland proceeded to revise and increase their tariffs, in order to be ready to fight Germany. And further, when protective duties are once granted, whatever the original purpose may have been, a vested interest in their maintenance is created, and the producers so protected are sure to oppose any proposal to reduce the duties in the effort to bribe foreign powers. So, as we have seen, the agrarian interest in Germany has fiercely opposed any treaty reductions of the grain duties. Schmoller himself recognises that "admittedly this neo-mercantilism frequently overlooks the fact that these weapons may as often be used unskilfully and mistakenly, as rightly. The agitation of the interested classes commonly fails to see that excessive protection as a whole does more harm than good. So Russia, the United States, and France have fallen into a high protective system, and sometimes into a commercial policy which, though it aims at international power, is of a worse kind, and hinders the economic development of these countries instead of promoting it." And elsewhere (as has been pointed out), Schmoller writes in regard to the new tariff that the officials who planned it were much too favourable to Protection pure and simple, and that those interested groups, which were well organised and skilfully led, exercised far too great an influence upon it.[1]

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[1] See his long report in the *Verhandlungen des Vereins für Socialpolitik*, 1902.

Another moderate view is that of Professor Conrad, of Halle. He thinks that industrial protection has gone far enough, but he would protect agriculture so far as that policy does not involve the depression of the standard of living for the working classes. He would retain the existing duties on foodstuffs for the present, because of the critical condition of German agriculture, but the only duties he would increase are those which would encourage the development of special branches, such as cattle-rearing and dairy-farming. Professor Sering, of Berlin, favours the increase of the agricultural duties only because he thinks that they will help agriculture over a transition period in which radical changes must be made, if the condition of the eastern provinces is not to be a serious social menace to Germany. He will support the heightened grain duties only if they are to be regarded as part of a social programme which shall include the reduction of duties on such commodities as coffee, petroleum, etc., the gradual prohibition of the invasion of the eastern provinces by the cheaper Slav labour, and the transformation (by a national system of land purchase) of the large estates of the eastern provinces of Prussia into peasant holdings. Unless these steps are taken to maintain the peasantry, in whom he believes the strength of Germany to lie, he will oppose the new duties.[1]

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[1] Schmoller's *Jahrbuch*, 1902, part ii. p. 353.

It will have been noticed that none of the economists quoted are inclined to defend increased duties on manufactured goods; the Free Trade school naturally demands their abolition, not at once, but gradually. It recognises fully that educational tariffs may be of use to a country in some periods of its economic development—it is prepared to defend their application in the past; but it is opposed to "maintenance tariffs" (Erhaltungszölle).[2] Such tariffs not only hinder the territorial division of labour, which has the same effect on production as labour-saving machinery; they not only prevent or delay a reduction in the national cost of production and the attainment of "a greater total product from a given expenditure of labour, and a higher national dividend than before,"[3] but they also strengthen the industrial combinations, and enable them to maintain artificial prices in the home market by eliminating competition from outside. This party accepts entirely the industrialisation of Germany, and believes that in the present stage of that country's development "the real protection of national labour is Free Trade."[1] The material progress of Germany depends on the extension of her manufactures and the completion of the division of labour between the industrial communities of the world. The agricultural duties are to be condemned, since they not only increase the cost of food by limiting the supply from countries where it is produced more cheaply than in Germany, but also by limiting imports reduce the market for German exports, which are chiefly manufactured goods, and so in two ways hamper the growth of industry.[2] They also point to the experience of Germany as an illustration of the fact that duties once imposed are much more likely to increase than to decrease. Some of their criticisms of Wagner and his allies have already been indicated; and it is unnecessary to state their more general argument, since it follows the lines of ordinary English economic thought.

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[1] *Verhandlungen des Vereins für Socialpolitik*, 1902, pp. 244–7.

[2] Brentano, *Das Freihandelsargument*, p. 15.

[3] Dietzel.

On the whole, then, so far as German economists in the past have been advocates of Protection, their arguments have been based largely on the political need of securing the development of German economic strength as a basis for political power. To-day that condition has been realised, and the argument for Protection is shifted on to another ground; it is alleged that the development has been too one-sided, and that the comparative neglect of agriculture has become a source of weakness to the Empire. Yet for more than twenty years agriculture has received a large measure of protection, and one is forced to believe that if, in spite of that, it has not held its ground, the reasons are to be sought in causes over which tariffs have little control. As to the other argument for Protection — the need for negotiation tariffs—no economist has shown that the result could not be obtained in another way; if they are to be used at all, a system of occasional duties—such as that established by the recent Sugar Convention and employed in the United States under the McKinley Tariff[1]—would be preferable to the imposition of a general tariff on manufactured goods, which might, or might not, be reduced. Tariffs for negotiation are at best, as even their defenders in Germany readily admit, a dangerous weapon; the policy can only be successful where the country making use of them is not dependent on supplies drawn from the country against which they are employed, whilst the latter is so dependent upon the former. And, finally, it must be borne in mind that tariffs are, after all, only the crudest form of Protection, and are not necessarily the only or most efficient means of promoting the economic well-being of a nation; and the safest lesson to draw from the experience of Germany is the simple fact that changes in tariff policy have been only one, and commonly not the most important, amongst the many causes of her economic progress.

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[1] Brentano.

[2] *Ibid.*, pp. 16, 17.

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[1] See pp. 255–6.

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PART II

THE UNITED STATES

CHAPTER I

THE ORIGINS OF AMERICAN COMMERCIAL POLICY

THE economic relations between the states of the American Union at the end of the War of Independence resemble closely the condition of affairs in the Germanic Confederation after the Congress of Vienna. The separate colonies had been allowed by Great Britain to impose customs duties for revenue purposes, and had also been influenced somewhat by protectionist ideas;[1] and although after 1776 this latter motive seems to have lost its force, the customs duties continued to be levied by each state against all others, including even its fellow-members of the Union. Yet the feeling in favour of freedom of trade was sufficiently strong—partly as the result of reaction against the restrictive policy of Great Britain—to restrain the new Confederation from imposing any tariff laws between 1776 and 1781.[2] There were practically no manufactures to protect; the colonies were almost entirely engaged in agricultural pursuits or in the carrying trade; and although there was a certain amount of iron produced, yet "in the main, the colonies made only such manufactures as could not be imported."[1] When from 1782 onwards a change came over American policy, and tariff legislation began, the determining forces seem to have been chiefly political—the necessity of raising money for the purposes of government, and the desire to be able to meet and resist the commercial legislation of the European Powers, and particularly the high tariff and Navigation Acts of Great Britain.[2] These considerations drove the states rapidly in the direction of commercial as well as political union,[3] and after some years of uncertainty, owing to the unwillingness of some members of the Union to surrender their liberty of economic action, the Constitution of 1787 settled that "Congress shall have power to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defence and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States; . . . to regulate commerce with foreign nations, and among the several States, and with the Indian tribes; . . . to make all laws which shall be necessary and proper for carrying into execution the foregoing powers."[1]

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[1] Stanwood, i. p. 25, quotes from the preambles to the Revenue Acts of various colonies. Cf. Hill, pp. 14–15.

[2] Hill, pp. 39–40.

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[1] Taussig, p. 10.

[2] "At first the rates were low and the articles taxed few, being generally luxuries or commodities the importation of which was thought harmful. In this category slaves, rum, spirits and wine, tea, coffee, and sugar held important places. The southern states did not go beyond these purely revenue measures. In all the northern states rates were advanced and other articles were added to the list, until in 1785 and 1786 the tariff schedules were generally extensive and taxes were imposed for both revenue and protective purposes, or, to use a phrase of more recent times, for revenue with incidental protection. In some of the states, indeed, protection was the principal end sought."—Hill, p. 43.

[3] The German states followed the opposite direction between 1833 and 1871.

The first use made by Congress of the authority so conferred appeared in the Tariff Act of 1789. It was a combination of specific and *ad valorem* duties, and was to continue in force for seven years. Specific duties—a fixed tax on a given amount of each commodity—were imposed on thirty-six articles, the chief being spirits (8–10 cents per gallon), tea (6–20 cents per lb.), sugar, salt, molasses, cordage, steel (56 cents per cwt.), and nails; and there were *ad valorem* duties of 15 per cent. on carriages, 10 per cent. on glass, china, earthenware, lace, and some others, 7½ per cent. on paper, gloves, leather, buttons, clothing, hats, and metal wares, and 5 per cent. on all other imports except seventeen raw materials (such as saltpetre, wool, cotton, hides, fur, dye-stuffs), which were admitted free.[2] Drawbacks of the full duty less 1 per cent. were granted for all commodities re-exported within twelve months; and finally, to stimulate the American carrying trade, a discount of 10 per cent. was given on all goods imported in vessels owned entirely by American citizens. Though the duties thus imposed were, on the whole, quite moderate, it is by no means certain that the legislation was inspired solely by financial needs.[1] It is true that these were considerable, and in face of the widespread dislike to direct taxation and to excises could only be satisfied by recourse to customs duties; but it is also clear that in the minds of many of its supporters the Act had a protective purpose, and for that very reason it called forth a good deal of opposition, particularly from the Southern States. It was a policy of Protection, chiefly for manufactures, modified partly by the inexperience of the legislators[2] and partly by regard to considerations of revenue.[3] In the very next year, after Hamilton, the Secretary of the Treasury, had failed to secure an Excise Act, the tariff was increased all round to meet the growing financial needs of the Union; the specific duty on steel was advanced from 56 to 75 cents per cwt., and many articles previously in the 5 per cent. *ad valorem* list were now made subject to 7½ per cent. and 10 per cent. In the following year an excise on spirits (somewhat lower than the customs duty) was established; but it was always unpopular and difficult to collect, and in 1802 was finally abandoned.

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[1] Art. i. sec. 8. See text in Bryce, *Amer. Commonwealth*, i. p. 700.

[2] Stanwood, i. pp. 58–60.

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[1] "It has often been said that the first Tariff Act, that of 1789, was a protective measure, and that in the debate on it the protective policy appeared full grown. But such considerations had little to do with the Act; and the discussions on Protection by no means indicate what was the real centre of interest. . . . Its main object was to secure revenue."—Taussig, pp. 14–15.

[2] Channing, *United States*, p. 139.

[3] For the evidence that protective considerations did weigh with the promoters of the measure, see Hill, pp. 108 *seq.*, and the account of the debates given by Stanwood, i. pp. 39 *seq.* Mayo-Smith and Seligman, p. 6, agree with Taussig, and remark that "it is erroneous to speak of any protectionist movement at this period"; but this seems to be based on the idea that the authors of the tariff did not regard average duties of 8½ per cent. *ad valorem* as protective—a supposition which is not proved, and is in direct conflict with the preamble to the Act, which asserts that "it is necessary for the support of the Government, . . . and the encouragement and protection of manufactures, that duties be laid," etc. Dewey (p. 84) holds that the evidence as to the consciously protective character of the tariff is conclusive.

In 1790 Congress had directed the Secretary to the Treasury to prepare and report plans "for the encouragement and promotion of such manufactories as will tend to render the United States independent of other nations for essential, particularly for military, supplies." Hamilton replied in December, 1791, with a "Report on Manufactures," which remains still one of the most elaborate general arguments for Protection, and contains most of the ideas which multitudes of writers have since elaborated.[1] There is the argument from the desirability of national self-sufficiency. "Every nation . . . ought to endeavour to possess within itself all the essentials of national supply. These comprise the means of subsistence, habitation, clothing, and defence. The possession of these is necessary to the perfection of the body politic, to the safety as well as to the welfare of society. The want of either is the want of an important organ of political life and motion; and in the various crises which await a state it must severely feel the effects of any such deficiency." There is the advocacy of the home market, though primarily in the interests of the agricultural producers; the restrictive policy of European Powers, and the fluctuations of their crops, make the foreign market too unreliable for the American farmer; it is therefore desirable to create for his produce the largest possible demand at home, and this can best be done by promoting "manufacturing establishments." "This idea of an extensive domestic market for the surplus produce of the soil is of the first consequence. It is of all things that which most effectually conduces to a flourishing state of agriculture." But the firm establishment of the necessary manufactures in the face of foreign competition is a task of great difficulty, and so we naturally come to the famous "infant industries" argument. "Whatever room there may be for an expectation that the industry of a people, under the direction of private interest, will, upon equal terms, find out the most beneficial employment for itself, there is none for a reliance that it will struggle against the force of unequal terms, or will of itself surmount all the adventitious barriers to a successful competition which may have been erected either by the advantages naturally acquired from practice and previous possession of the ground, or by those which may have sprung from positive regulation and an artificial policy"—this last phrase doubtless a reference to Great Britain. Finally, Hamilton argues that any increase of prices arising from Protection will soon be more than counterbalanced by the increase of production, and resulting cheapness, which it will call forth ; and he urges the essential harmony of the industrial and agricultural interests, since the farmers may have to pay more for a time for manufactured goods, but will find the value of their farms enhanced by the growth of the demand for agricultural produce, both food and raw material. As definite proposals he recommends the grant of bounties, the free admission of raw materials (or the payment of drawbacks), and general protection against all manufactured articles which can be produced in the country.

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[1] Full text in Taussig, *State Papers and Speeches on the Tariff.*

From 1790 onwards there were constant alterations in the tariff—between 1792 and 1816 there were some twenty-five Tariff Acts passed, all modifying the customs duties in one way or another. But Hamilton's Report, and the ideas it embodied, do not seem to have exercised any special influence on the legislation of this period ; the motives were always financial.[1] Up to 1808 there were increases of duties on various commodities ; some specific duties were replaced by duties *ad valorem ;* and some articles (chiefly those useful for military purposes) were added to the free list. Alone in the duty imposed in 1804 on window glass "was any concession made to the protective policy."[1] But whilst this was the policy of Congress, it is evident that the feeling in favour of Protection was growing in the country at large. It was held back by the general prosperity of American trade during the Napoleonic wars until the United States became involved in the European complications after the year 1807; until that time the American export and carrying trade had reaped great benefit from British difficulties. The following table shows the movement of the foreign trade of the United States from 1791 to 1807 (in million dollars):—[2]

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[1] "With two or three exceptions, they had no other motive than to adjust the revenue to the needs of the Treasury" (Stanwood, i. p. 111). Cf. Taussig, p. 16.

Financial years ending Sept. 30.	Gross Imports.	Re-exports.	Gross Exports.
1791	29·2	·5	19·0
1792	31·5	1·7	20·7
1793	31·1	2·1	26·1
1794	34·6	6·5	33·0
1795	69·7	8·5	48·0
1796	81·4	26·3	67·0
1797	75·4	27·0	56·8
1798	68·5	33·0	61·5
1799	79·0	45·5	78·6
1800	91·2	39·1	71·0
1801	111·3	46·6	94·0
1802	76·3	35·7	72·0
1803	64·7	13·6	55·8
1804	85·0	36·2	77·7
1805	120·6	53·2	95·5
1806	129·4	60·3	101·5
1807	138·5	59·6	108·3

The most striking column here is that of re-exports, which represents the growth of the carrying trade of the United States, and the commercial importance of the war to that country is most markedly illustrated by a comparison of the figures for 1802 and 1803, the years of the Treaty of Amiens, with those which immediately precede and follow them.

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[1] Stanwood, i. p. 115.

[2] Taussig, p. 12.

But with 1808 a change came. In November, 1806, Napoleon had replied to the British blockade of the French coast by the Berlin Decree, which declared the British Islands blockaded, and forbade all trade in British goods. Great Britain answered by proclaiming the continental coasting trade—at least for ports under French control—closed to neutrals, and at the end of 1807 ordered "the condemnation of any American vessel seized while on a voyage to any European port closed to British vessels, unless such vessel had first touched at a British port. Napoleon, on his part, in the Milan Decree (December 17th, 1807) declared that any ship which had obeyed the above order was good prize if seized in any port under his control. At this time, Napoleon was the virtual master of all the continental ports except those of Sweden, Norway, and Turkey, and the British were supreme on the ocean. These orders and decrees, therefore, provided for the speedy annihilation of American shipping, and this seems to have been the object of the last British Order in Council, if one may judge from a perusal of Mr. Perceval's correspondence on the subject. The official reason as stated was a desire to compel the United States to retaliate upon the French Government."[1] But it was not to be expected that the United States would quietly submit to this treatment. On December 23rd, 1807, Congress passed the Embargo Act, which prohibited American vessels from leaving for foreign ports, and foreign vessels from taking any cargo except that already on board. The vigorous enforcement of these orders on both sides—for although in March, 1809, the Embargo Act was repealed, it was replaced by the establishment of Non-Intercourse with France, Great Britain, their allies and colonies—was one of the chief causes of the Anglo-American War of 1812.

With the political effects of these various regulations we are not concerned; but they were of great importance for the economic development of the United States. The following table shows the movement of American foreign trade (in million dollars) from the issue of the Embargo at the beginning of 1808 to the end of the war.[2] It should be noted that at the commencement of the war of 1812 the United States import duties were doubled.

Year.	Gross Imports.	Re-exports.	Gross Exports.
(1807	138·5	59·6	108·3)
1808	57·0	13·0	20·4
1809	59·4	20·8	52·2
1810	85·4	24·4	66·7
1811	53·4	16·0	61·3
1812	77·0	8·5	38·5
1813	22·0	2·8	27·9
1814	13·0	·1	6·9

[1] Channing, *United States*, pp. 177–8.

[2] Taussig, p. 12.

So by 1814 American foreign trade had practically ceased to exist. The war was equivalent in its effects to a policy of Protection amounting to prohibition, and American manufactures, left in secure possession of the home market, entered upon a course of rapid expansion. Especially was that the case with the production of woollen goods, which increased in value from four million dollars in 1810 to nineteen million in 1815;[1] and with cotton spinning, which it is estimated employed 4,500 spindles in 1805, 87,000 in 1810, and 130,000 in 1815.[2] There were the beginnings of cotton weaving, and the growth of the manufacture of iron, glass, and pottery.[3] It was during these years that the factory system began (but only began) to replace domestic industry in the United States: "the manufacture of cotton and wool passed rapidly from the household to the mill; but the methods of domestic and neighbourhood industry continued to predominate, even in those industries, down to and including the decade between 1820 and 1830."[4]

Just at the close of 1814 a treaty of peace was signed by Great Britain and the United States, and this was followed in 1815 by a commercial agreement, intended at first for four years, but prolonged in 1818 for another ten years; by it the contracting parties bound themselves not to impose discriminating duties on each other's products.[1] The first result of the cessation of hostilities was a swift rise of imports; from $13,000,000 in 1814 they rose to $113,000,000 in 1815 (with only six months of peace), and $147,000,000 in 1816. This last was the highest figure yet recorded, and moreover, as re-exports were comparatively small, "the value of net imports was almost double that of any year preceding the war."[2] The phenomena of Continental Europe at this time were repeated in the United States; the barriers erected during the long war were removed, and both found themselves exposed to a sweeping invasion of British manufactured goods, which severely threatened the very existence of some at least of the industries which had grown up under the shelter of the system of prohibition. In the United States the manufacturers of cottons, woollens, and chemicals thought themselves particularly imperilled, and in 1815 President Madison called Congress to their help. "Under circumstances giving a powerful impulse to manufacturing industry," he wrote,[3] "it has made among us a progress and exhibited an efficiency which justify a belief that with a protection not more than is due to the enterprising citizens whose interests are now at stake, it will become at an early day not only safe against occasional competitions from abroad, but a source of domestic wealth and even of external commerce. In selecting the branches more especially entitled to the public patronage, a preference is obviously claimed by such as will relieve the United States from a dependence on foreign supplies, ever subject to casual failures, for articles necessary for the public defence or connected with the primary wants of individuals. It will be an additional recommendation of particular manufactures where the materials for them are extensively drawn from our agriculture, and consequently impart and insure to that great fund of national prosperity and independence an encouragement which cannot fail to be rewarded."

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[1] "A loose, though significant guess" (Taussig, p. 40 n.).

[2] Taussig, p. 28, from Woodbury's Report of 1836.

[3] "See what has been, only by the short operation of the Embargo and Non-intercourse Act, done in America! . . . We have here before us the seeds of a great event—nothing less than the complete and absolute independence of America upon English manufactures" (William Cobbett, quoted in Bolles, ii. p. 289).

[4] *Twelfth Census of the United States,* vii. p. liii.

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[1] Channing, *United States*, p. 198.

[2] Stanwood, i. p. 131.

[3] *Seventh Annual Message*, 1815.

The result was the tariff of 1816, which commenced a series of enactments which for about twenty years became more and more protectionist. But the first steps were quite moderate. The original scheme was to reduce the war duties 29 per cent.—that is, to leave the permanent duties 42 per cent. higher than before the war of 1812; but the proposals were considerably modified in their passage through Congress owing to the opposition of the shipping interest and the rivalry of the various groups of states which sought protection for their industries.[1] So the proposed duty of \$1.25 per cwt. on bar-iron was reduced by the House of Representatives to 45 cents; the proposed duty on sugar was cut down considerably; instead of the desired rate of 33⅓ per cent. the cotton manufactures obtained only 25 per cent. for three years and 20 per cent. after the expiration of that term.[1] That protectionist motives exercised a strong influence over the tariff discussions there can be no doubt, but they had not yet obtained a complete control over the minds of the legislators.[2] The new tariff was a combination of specific and *ad valorem* duties.

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[1] "The difficulty is illustrated most clearly by the objections of Northern members to a protecting duty on sugar and of Southern members to giving protection to cotton manufactures. On the question of protection to iron the North and the South united against the Middle States" (Stanwood, i. p. 157).

The new customs laws seem to have had little effect, so far at least as the iron and cotton industries were concerned. The imports of bar-iron rose from 12,293 tons in 1816 to 21,160 tons in 1817, and, after a temporary decline, to 22,459 tons in 1820, whilst the home production fell rapidly—

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[1] In connection with cottons the system of the "minimum valuation" was adopted; *i.e.* it was directed that all cotton, cloths, etc., "the original cost of which at the place imported shall be less than 25 cents per sq. yard, shall be taken and deemed to have cost 25 cents per sq. yard, and shall be charged with duty accordingly." Taussig writes (p. 30): "After 1818 the use of the power-loom, and the fall in the price of raw cotton, combined greatly to reduce the prices of cotton goods. The price of coarse cottons fell to 19 cents in 1819, 13 cents in 1826, and 8½ cents in 1829. The minimum duty became proportionately heavier as the price decreased, and in a few years after its enactment, had become prohibitive of the importation of the coarser kinds of cotton cloths."

[2] Taussig (pp. 18–19) seems to think that the new duties (averaging 20 per cent.) were the outcome chiefly of financial needs. Dewey (p. 162) holds that "Protection was adopted as a fundamental basis of the fiscal system and revenue was subordinated to industrial needs." He adds, however, that there was little opposition, because the country was confronted by a real crisis.

in part doubtless because of the technical defects of the manufactures. Similarly in the cotton manufacture "the tariff of 1816 was not protective so far as those establishments were concerned which had not the most efficient machinery. This is almost equivalent to saying that it was protective in relation to but one factory in the country."[1] The help given to the makers of woollens by the duties was also only slight; and the three industries soon began to invoke again the aid of Congress. In 1818 they secured an increase in the duty on bar-iron, and a prolongation of the 25 per cent. on cottons until 1826; but apart from these increases, the protectionist movement for some time made little progress. This was due in part to the attitude of the Southern States, where agriculture was prosperous owing to the world-wide demand for their cotton and tobacco; they believed that protection for manufactures, which were practically impossible under the climatic conditions of the South and with slave labour, would be inimical to their interests. Moreover, in politics it was the "era of good feeling"—there were no organised political parties to seek in the advocacy of Protection an election cry. But in 1818–19 there came an economic crisis; the prices of the agricultural staples of the United States, hitherto high, fell rapidly, thus imitating the prices of manufactured goods, which had declined sharply when the conclusion of the war had removed the restrictions on imports. This fall in agricultural prices to some extent benefited the manufacturers, but did not moderate their demand for Protection; and the agriculturists, especially in the North, became more favourable to it in their desire — in view of European legislation — to develop the home market.[1] Thus one important effect of the crisis was to revive and strengthen the agitation in favour of more protection, just as the crisis of 1873 and the following years in Germany prepared the way for Bismarck's tariff legislation. In 1819 the Congressional Committee on Manufactures, under the stimulus of the commercial trouble of that year,[2] brought forward proposals for a complete revision of all the tariff rates, with large increases all round, partly to provide revenue to meet a growing deficit in the national accounts, and partly to extend the protection already given to manufactured goods. There was a prolonged conflict, and in April it was carried through the House of Representatives only to be summarily rejected by a majority of one vote in the Senate.

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[1] Stanwood, i. p. 173. Cf. for the effect of the various duties, Taussig, pp. 34–5, 40–1, 50–1.

From 1820 to 1824 there was some agitation throughout the Union in favour of tariff changes, but practically no attempt was made to give expression to it in the legislature until the new Congress, to meet at the end of 1823, had been elected. The effect of the census of 1820, which determined the apportionment of seats in the House of Representatives,[1] had been to increase the representation of the Middle States—New York, Pennsylvania, Ohio, Kentucky, Tennessee—which were strongly protectionist. President Monroe invited the new Congress to "a review of the tariff for the purpose of affording such additional protection to those articles which we are prepared to manufacture, or which are more immediately connected with the defence and independence of the country." The response to this appeal was the Tariff Act of 1824, of which "it may be said without reservation that the sole object was the protection of manufactures";[2] the financial position of the Government made it unnecessary to consider revenue. It increased the duties on iron, lead, wool, hemp—though not so much as those interested had desired; on cotton and woollen goods the *ad valorem* duties were raised from 25 to 33⅓ per cent., but the additional protection to woollens was discounted by the doubling of the duty on raw wool. Strong opposition came from the commercial classes of New England to the tariff as a whole; from the shipbuilders to the increases on hemp (for cordage), flax, and iron; from the manufacturers there to the increases on molasses (for rum) and raw wool. But New England was not solid in its resistance to the new tariff, for it had itself growing manufactures of cotton and woollen goods; and hence its vote was divided.[1] The South was united; it exported cotton largely, and feared retaliation, particularly from Great Britain. The Middle and Western States, whose interests were chiefly agricultural, threw their whole weight on the side of the new proposals, partly in their desire for the development of the home market, and partly to obtain protection for their hemp, wool, and flax.[2] The combination of these states and the manufacturers of New England carried the Act of 1824, but only by a small majority.

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[1] Taussig, pp. 19–24.

[2] "Its causes were complex: in part the inability of the manufacturing industries to recover a stable footing after the abnormal growth occasioned by the embargo and the war, and in part a spirit of speculation developed by several years of rapid commercial expansion and bad banking" (Dewey, p. 166).

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[1] "Representatives and direct taxes shall be apportioned among the several States which may be included within this Union, according to their respective numbers. . . . The actual enumeration shall be made within three years after the first meeting of the Congress of the United States, and within every subsequent term of ten years. . . . The number of Representatives shall not exceed one for every thirty thousand" (Original form of art. i. sec. 2 of the Constitution, given in Bryce, *Amer. Comm.*, i. p. 697).

[2] Stanwood, i. p. 202.

Two other points about the proposals of that year are noticeable. A clause providing for the imposition of a surtax equivalent in amount to the bounty paid by a foreign country on any goods imported into the United States was rejected, on the ground that it would be a breach of the Commercial Treaty of 1815 with Great Britain, which guaranteed that no unfavourably discriminating duties should be imposed by the United States on commodities coming from that country. And much more important than this was the question whether the levying of import duties for protective purposes was constitutionally within the power of Congress or not; the matter was raised only tentatively, and was not much discussed, but it was subsequently to form the subject of very considerable controversy.[1]

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[1] In the division on the Bill of 1819, 19 New England representatives voted for it, 18 against; New York, New Jersey, Pennsylvania, and Delaware gave 55 votes for, 1 against; the South, 8 for, 63 against; Ohio, Illinois, and Indiana, 8 for, none against (Stanwood, i. pp. 192–3). In 1824 the South voted against the proposed tariff, the Middle and Western States for; of the New England States, Rhode Island and Connecticut for, the rest against (Taussig, pp. 74–5).

[2] Taussig, pp. 70–5.

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[1] Stanwood, pp. 220–5.

CHAPTER II

THE GROWTH OF PROTECTION, AND THE COMPROMISE OF 1833

For a short time after the passing of the Tariff Act of 1824 the manufacturers seem to have been satisfied; but in the latter part of 1826 a demand for a greater amount of protection made its appearance amongst the producers of woollen goods. Their complaint was to the effect that the British duties on raw wool had been reduced, that wages in Great Britain were lower, and therefore the Americans could not effectively compete with the British manufacturers, and were in a very depressed state.[1] They did not ask for a reduction of the duty on raw wool—probably believing that the agricultural states would not listen to such a proposal—but for an increase in the duties on woollen goods. The Woollens Bill of 1827, which was introduced to meet their demands, passed the House of Representatives, only to be immediately wrecked in the Senate; but the woollen manufacturers had revived the whole protectionist movement. A widespread campaign had commenced, and the advocates of Protection found skilful and influential exponents of their views in Matthew Carey, and Niles, whose *Weekly Register* became their storehouse of facts and arguments. After the Woollens Bill had been introduced, the Free Trade party realised the necessity of vigorous action, and began a counter-campaign. But unlike previous controversies on the tariff question, the economic discussion was now to become inextricably involved with party politics; and American tariff legislation entered upon a new stage. The "era of good feeling" was at an end; political parties were at last taking shape again, and round Andrew Jackson there was being formed a party which represented a break with all the traditions of the past.[1]

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[1] Stanwood, i. pp. 253–4, 277.

The outcome of the protectionist agitation was the Tariff Act of 1828, under which "the experiment of protecting was now to be carried to the highest point it ever reached."[2] That Act, destined to be known as the "Act of Abominations," was passed at a time when men's thoughts were concentrated on the approaching presidential campaign, and the determination of the Jackson party to secure the election of their chief. The supporters of the retiring President, Adams, whose leader was Henry Clay, were definitely in favour of Protection; the Jackson party was divided—the Southern members, who were united in their support of Jackson, being in favour of a considerable reduction of duties, whilst the Middle States, whose votes would turn the election, were almost as strongly protectionist. The outcome of this peculiar position was an extraordinary series of party complications and political manœuvres, in which Jackson's supporters were led with astonishing skill by Martin van Buren. A Tariff Bill was framed, greatly increasing duties on manufactured goods and raw materials alike; and ultimately it was passed by a curious combination. The South voted solidly against it, so did two-thirds of the New England members; the vote of the Western and Middle States, combined with the protectionist vote from New England, carried it.[1] But the votes of the members were determined in the main by party considerations; many excessively high duties had been inserted in the Bill by the votes of Southern members desirous of making it so unpopular that it could not pass; yet though they voted against it at the last it was carried largely by the votes of people with whom they were politically allied, who were not anxious for Protection, but meant to capture the vote of the Middle States for their presidential candidate.[2] In this they were successful; at the election of November, 1828, Jackson was returned by an overwhelming majority.

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[1] Wilson, pp. 12–21.

[2] Bolles, ii. p. 407.

The increases made by the new tariff in the customs duties were very considerable. The duties on hemp were raised from $35 to $45 a ton, though good hemp could scarcely be grown in the country; on molasses from 5 to 7½ cents a gallon, whilst drawbacks to the manufacturers of rum were refused; on pig-iron from 56 to 62½ cents per cwt.; on hammered bar-iron from 90 to 112 cents per cwt, and on rolled bar-iron from $30 to $37 a ton.[1] But the chief developments had regard to woollens. It is admitted that the difficulties of the American manufacturers of woollen goods in meeting British competition were due in large measure to their technical deficiencies and the preference of the American consumers for the better quality goods from Great Britain;[2] but they secured in 1828 increased specific duties on woollen goods, though to nothing like the extent which they had desired. On the other hand, the old *ad valorem* duty on raw wool was replaced by a specific duty of 4 cents a pound, with the addition of an *ad valorem* rate which ultimately was to reach the height of 50 per cent. This particular clause seems to have been designed to secure the support of the agricultural states, and at the same time to damage the Tariff Act by making it unpopular with the manufacturers.

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[1] Taussig, p. 98.

[2] The complicated story of these manœuvres can be read in Stanwood, i. chap. viii.

The passage of the Tariff Act of 1828 led immediately to one of the most fateful political conflicts in the history of the United States. We have seen that the Southern States were strongly opposed to Protection, and they were offended also by the appropriation of federal surplus revenues to the construction of public works, particularly roads and canals, almost entirely in the North, which with its growing manufactures was in urgent need of the development of its means of communication.[1] At the time when the new tariff proposals were being discussed in 1827, the inhabitants of South Carolina (always the leader of the South in action) had protested against the protective duties on the ground that "the duties laid by Congress, of whatever description, are levied in great part on articles purchased by Southern industry and consumed by the South; but these duties are expended almost exclusively for the benefit of other sections of the Union. . . . All that is taken from us is disposed of elsewhere. We are benefited in the South by those expenditures in no way that we can perceive and feel. All that we pay is accumulated in defending and improving distant sections of the Union, and the prosperity of the North is built upon the impoverishment of the South."[2] The Southern States had every claim for special consideration; in 1829 out of a total export valued at about $56,000,000, $34,000,000 represented the cotton, rice, and tobacco exported from the South.[3] The exports of raw cotton were $26,575,000, as against $1,258,000 worth of cotton goods. South Carolina was fourth amongst the exporting states of the Union. In the tariff of 1828 protection for manufactures had reached its highest point; but the scheme then adopted was so thoroughly bad that all were agreed on the necessity of some changes; and for some time therefore, though its leaders were preparing their plans, the South did not think it necessary to take decisive action.

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[1] Taussig, pp. 88-9, 93.

[2] Stanwood, i. p. 280.

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[1] Jackson was opposed to this policy, but was overruled by Congress (Wilson, p. 39).

[2] Quoted in Stanwood, i. p. 261.

[3] Wilson, p. 50. "The contribution of the South appears still more striking if it be compared with the total value of agricultural exports, which was a little under $44,000,000."

The first changes were made in 1830. The duties were reduced on tea by 50 per cent., on coffee by 60 per cent. (and after 1831 by 80 per cent.), and on cocoa by 50 per cent., whilst the duty on molasses was put back to the old level, and the system of drawbacks renewed. But these were not all the changes required; the agitation of the Free Trade party continued, though it is important to notice that they did not ask for a complete abolition of duties—in fact, they were willing on financial grounds to retain somewhat heavy rates. In the Petition to the Senate, from the Free Trade Convention at Philadelphia in 1831, it is stated that "the people prefer, in time of peace, duties raised on the importation of foreign merchandise to any internal tax, direct or indirect. Whether for good or for evil, that system affords an encouragement to domestic manufactures not less efficient for being incidental. *Duties on imports, amounting on an average to about 20 per cent. of the value, appear necessary to the support* *of Government*."[1] The petitioners condemn the high duties of 1828, even after the changes of 1830, because without giving real help to the protected trades they hamper all the others. They point out that in the existing conditions of American industry manufacturers must have recourse to foreign supplies — they give as an instance iron goods, with growing imports in spite of increased duties[2]—and they complain that the duties greatly increase the cost of materials to manufacturers, especially the shipbuilders. The same petition also presents what is probably the best short statement of the Southern objections to the protective legislation: "The Southern States have always confined themselves almost exclusively to the cultivation of the rich products of their climate. This is the only advantage they enjoy, and they owe it to nature. As they make but few, they consume a much greater proportion of manufactured articles imported from other states or other countries. That system, therefore, that enhances beyond measure the price of those objects of necessary consumption operates most unequally and unjustly upon them. They are forbidden to

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[1] Text in Taussig, *State Papers*. The Petition, which is an elaborate statement of the practical argument for Free Trade, was written by Albert Gallatin.

[2] The Petition gives the following figures of imports :—

	Rolled Iron.	Hammered Iron.	Manufactures of Iron.
1817–1820	2,237 tons	16,887 tons	Not ascertained.
1821–1824	4,212 ,,	23,162 ,,	$2,600,000
1825–1827	5,400 ,,	22,650 ,,	$3,630,000
1828–1830	6,450 ,,	31,000 ,,	$3,660,000

supply themselves on the cheapest terms consistent with the revenue necessary for the exigencies of Government. As the greatest consumers, they must not only pay a greater share of the duties requisite to defray the necessary national expenditure, but they are compelled to pay the enhanced price occasioned by the protecting system. That system cannot be extended to them. They find in it no indemnity, no compensation for the injury which it inflicts upon them. They have not, they cannot, in self-defence erect manufacturing establishments. The nature of their population forbids it."[1]

Moderate men in the Northern States were anxious to make some concession to the South, and the feeling in favour of a reduction of duties was strengthened by the condition of the public finances. The customs receipts had been sufficiently large to allow of the paying off of the National Debt with great rapidity. Between January 1st, 1828, and January 1st, 1832, the amount was reduced from $67,475,000 to $24,322,000, and the interest payable had fallen by one-half. Meanwhile the receipts from customs were rising; consequently, with the Congress which met in December, 1831, there began a revision of the tariff, and the new Act was adopted in June, 1832.[1] The duties on flax and hemp were reduced slightly, as were also those on pig and bar iron. But the chief changes were in the case of wool and woollens; the cheaper kinds of raw wool were admitted free, on the others the duties were considerably reduced; on cheap woollen goods the *ad valorem* duty was reduced to 5 per cent., on worsted goods from 25 to 10 per cent.; on other qualities they were nominally increased but practically reduced, owing to the abolition of the system of minimums.[2] The number of absolutely free articles was increased from 49 to 180; tea and coffee imported in American vessels were to be free. "In fact, the protective system was put back, in the main, to where it had been in 1824. The result was to clear the tariff of the excrescences which had grown on it in 1828, and to put it in a form in which the protectionists could advocate its permanent retention."[1] But this very fact drove the Southern States into open revolt; so long as there was a chance, by ordinary legislative means, of overthrowing Protection, they were disinclined to have recourse to other weapons, but they interpreted the action of Congress in 1832 as meaning the permanent incorporation of Protection in the fiscal policy of the Union.

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[1] Readers of De Tocqueville's *La Démocratie en Amérique* will remember his description (17th ed., vol. ii. chap. x. pp. 320-5) of the contrast presented to the traveller down the Ohio River by the two banks, and his prophecy of a great conflict as the inevitable outcome of the difference between the economic and social organisation of North and South. With the opinion of the petitioners, quoted above, may be contrasted the belief of Hamilton, in his Report on Manufactures (Taussig, *State Papers*, p. 59), that "ideas of a contrariety of interests between the northern and southern regions of the Union are in the main as unfounded as they are mischievous. The diversity of circumstances on which such contrariety is usually predicated authorises a directly contrary conclusion." Forty years later De Tocqueville agreed with this: "Je vois bien dans les différentes parties de l'Union des intérêts differents, mais je n'en découvre pas qui soient contraires les uns aux autres" (*loc. cit.*, p. 369). But he anticipated conflict owing to the dissatisfaction of the South at seeing itself outpaced in prosperity and political power by the North, and the difference of temperament arising from the difference of economic conditions.

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[1] A Report of the Congressional Committee which prepared the scheme contains an elaborate discussion of the relative merits of specific and *ad valorem* duties, and declares in favour of the latter on the grounds that they affect all qualities of a commodity equally, as specific duties do not unless very elaborately detailed; and that they enable the proportion of taxation intended by the legislature to be maintained in spite of fluctuations of values. These advantages outweigh the disadvantage of the encouragement given to false declarations of value (Bolles, ii. pp. 415–16). For a fuller discussion of this question, see pp. 236–8.

[2] Stanwood, i. p. 384.

The line which the leaders of the South, especially Calhoun and Hayne, would take had already been revealed; it was the adoption of a particular view as to the manner in which the Constitution should be interpreted. There were two possibilities; the Federal Government might be comparatively weak, and confined to the exercise of powers based on a strict and narrow interpretation of the actual terms of the Constitution, whilst the separate states enjoyed extensive rights and powers—that is to say, there could be a league of states, not a Union; or the Federal Government might continually increase in authority, and the terms of the Constitution might be liberally interpreted at the cost of a constant diminution of the powers of the various members of the Union. Economic and political considerations alike determined the Southern States to adopt the former view. Under their climatic conditions, and with slave-labour, there could be no considerable growth of manufactures, and it was quite certain that the South would be outpaced in population and wealth by the North, and still more by the Middle States. That would mean the political predominance of the North, and it seemed that the result would be the maintenance of the protective policy to which the South was so strenuously opposed—it might also mean the overthrow of slavery. The leaders of the South argued in the tariff controversies from 1827 to 1832, as we have seen, that the policy of Protection benefited one portion of the Union at the expense of another; and as they could not prevent the passage of the Tariff Acts, they maintained that the Acts themselves were unconstitutional, whatever the courts might say. They argued that customs duties for protective purposes were not within the terms of that clause of the Constitution which authorised Congress "to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the general defence and welfare of the United States"; or that even if they were so included, or could be, by an application of the doctrine of "implied powers," the duties actually levied violated the rule that "all duties, imposts, and excises shall be uniform throughout the United States," since they bore more heavily upon the South than upon the North. But if the obnoxious tariff laws were passed, and maintained by the courts, what was to be done? In a famous debate in regard to public land, in 1830, Hayne, of South Carolina, had argued that "the Constitution of the Union was a compact between the states; that to make the Federal Government the sole judge, through its judiciary, of the extent of its own powers, was to leave the states utterly without guarantee of the rights reserved to them, and might result in destroying the federal character of the Government altogether; and that if the states could not defend themselves in cases where the unconstitutionality of acts of the Federal Government seemed to them deliberate and palpable, the government might be consolidated to a point of intolerable tyranny."[1]

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[1] Taussig, p. 105.

Authority for the action now taken in 1833 was found in the resolutions passed by Virginia and Kentucky at the time of their entry into the Union, to the effect that "in case of a deliberate, palpable, and dangerous exercise of other powers, not granted by the said compact, the states, who are members thereof, have the right, and are in duty bound, to interpose, for arresting the progress of the evil, and for maintaining within their respective limits the authorities, rights, and liberties appertaining to them."[2] The practical application of this doctrine was the method of "nullification." On November 24th, 1832, a State Convention in South Carolina declared the Tariff

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[1] Wilson, pp. 43–4.

[2] *Ibid.*, p. 45.

Acts of 1828 and 1832 null and void within that state, and announced that, in the event of the Federal Government attempting to enforce the law, South Carolina would deem it necessary to withdraw from the Union. Jackson, originally elected with Southern support, had now been re-elected by an overwhelming majority, and whatever his personal views on the tariff question itself may have been, he would have nothing to do with nullification, which he declared to be "incompatible with the existence of the Union, contradicted expressly by the letter of the Constitution, unauthorised by its spirit, inconsistent with every principle on which it was founded, and destructive of the great object for which it was formed."[1] In January, 1833, a Bill was introduced into Congress, known as the Force Bill, authorising the President to use the Federal military and naval forces to enforce the tariff, wherever the collectors might encounter obstacles. But neither side was anxious to push the matter to extremes. Not all the Southern States were prepared to follow South Carolina, and the Free Traders of the North cared more for the maintenance of the Constitution than for the overthrow of the tariff. On the other hand, the political leaders of the Protectionists recognised the necessity of yielding to some extent. In February Clay introduced his Compromise Bill. By it all duties in excess of 20 per cent. *ad valorem* were to be reduced by one-tenth of the excess in each alternate year up to 1839, and after that by a greater amount, so that the whole excess should be abolished by 1842; a number of duties were to be entirely abolished in 1833, and many more in 1842.[1] The result would be that by 1842 the free list would be much enlarged, and duties brought to a uniform level of 20 per cent. *ad valorem.* This amounted to "giving manufacturers ten years' notice to prepare for the final abandonment of the principle of Protection";[2] but it is more than probable that Clay and his friends did not anticipate any such event—they hoped that something would happen to enable the notice to be cancelled. The compromise was readily accepted by Calhoun on behalf of the South, and became law on March 2nd, 1833. On March 11th, South Carolina repealed the nullification ordinance, but also declared the Force Bill void.

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[1] Wilson, p. 61.

As a temporary political expedient, Clay's compromise was successful in that it put an end to the crisis, but it did not settle the real question at issue. The Federal Government had asserted its right to enforce the Federal law even against the will of the individual states; but South Carolina still adhered to its doctrine of nullification. Practically, the South was victorious; it had compelled the North to repeal the obnoxious tariff, though the Force Bill remained on the statute book as a statement of the powers of the Federal Government. The problem was put aside for a time, but it was to return a generation later to be solved only by war.[1]

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[1] Stanwood, i. pp. 307–8.

[2] Bolles, ii. p. 425.

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[1] For the details of the conflict and the constitutional argument, see Wilson, pp. 23–65; Stanwood, i. chaps. ix. and x.; Johnston, *History of American Politics*, chaps. xi. to xiv.; and cf. Bryce, *American Commonwealth*, chaps. xxxi. to xxxv.

CHAPTER III

COMPROMISE, PROTECTION, AND RE-ACTION—ECONOMIC DEVELOPMENT OF THE UNITED STATES TO 1860

For eight years the Tariff Act established by the Compromise Act of 1833 remained untouched; and consequently during all that period the United States were moving steadily in the direction of the removal of restrictions upon foreign trade. The first four years, from the passage of the Act till towards the end of 1836, were a time of general prosperity, but unfortunately they were also coincident with the beginnings of financial disorder, resulting not from economic causes, but from the extraordinary policy of the Government.[1] The chief example of the reckless financial methods of the administration of President Jackson (1829-37) was the attack upon the United States Bank. That institution had been originally established in 1791 with a charter for twenty years, but from the first there had been considerable doubts as to the constitutionality of the proceeding. The result was that the charter was allowed to lapse in 1811; but the bank had proved so useful that it was renewed in 1816. The Treasury had subscribed one-fifth of the bank's capital, and the President nominated one-fifth of its directors; it was the depository of the Federal revenues, its notes were legal tender for all payments to the United States Government, and it was bound to redeem its notes in specie on demand. From the first, the new Democratic party were hostile to the bank, partly because, with their theory as to the interpretation of the Constitution, they held the bank charter to be unconstitutional, in spite of a decision of the Supreme Court to the contrary effect in 1819; partly because they thought that its privileges constituted an "un-American monopoly"; and partly because they supposed it to exercise great political influence in the interest of their opponents. There seems to have been little basis for their charges in regard to this last matter, or for the further charges of mismanagement, but Jackson resolved to overthrow the bank, and when Congress passed an Act renewing the charter it encountered a Presidential veto, which the majority was not strong enough to override. Clay endeavoured to make the bank question the principal issue at the Presidential election in November, 1832, with disastrous results; the triumphant return of Jackson only strengthened his determination to destroy the bank. In September, 1833, having at last secured a Secretary of the

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[1] The year 1833 "marks the change, for some time impending, from rational and conservative, to reckless and destructive, finance, and from comparative prudence on the part of the business community to wild speculation" (Stanwood, ii. p. 1).

Treasury who was ready to help him, Jackson proceeded to withdraw the Government deposits from the bank, and not to replace them. The Federal revenues were henceforth to be deposited in certain selected state banks (*i.e.* banks under state charters), which were not chosen always for their financial soundness, but in some cases at least for their usefulness for party purposes.[1]

In the years 1833 to 1836 there was a great rise of imports, but in spite of this the reduction of duties had brought a diminished customs revenue. However, the sales of public land in these years were so great as to give the Treasury a huge surplus, and in 1836 the National Debt was extinguished.[2] If the sales of public land were to go on, a continued surplus might be expected. The obvious course would have been to reduce taxation, but no one was willing to touch the Compromise of 1833, which had already come to possess an almost sacred character. Consequently it was decided, on the proposal of Calhoun, that on and after January 31st, 1837, all the surplus funds remaining in the Treasury above $5,000,000 should be distributed between the various states, with the proviso, however, that money so distributed could be recalled by the Federal Government if necessary—a course never adopted, and in fact impossible. Three such distributions were made in 1837, amounting to $37,000,000; after that there was no longer a surplus, but a deficit.

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[1] Wilson, p. 88. Dewey (p. 209) apparently thinks that the charges against Jackson for favouritism in this matter are exaggerated ; "the interests of the Government were well safeguarded."

[2] Stanwood, i. p. 284.

In the same period there was an extraordinary increase in the number of banks of issue (from 329 in 1829 to 788 in 1837),[1] stimulated by the new deposit system of the Federal Government, the growth of speculation, particularly in land, and the development of industry. The states exercised no control over the new banks, and allowed them, even when they possessed scarcely any capital, to issue notes freely. The country was flooded with paper money in all stages of depreciation, and prices rose rapidly. To protect itself as much as possible, the Treasury in July, 1836, issued a circular requiring all payments for public lands to be made in cash. This increased the difficulties of the money market, already very great and complicated by the calling in of loans by English creditors;[2] and by the beginning of 1837 commercial credit was badly shaken. Food prices rose rapidly,[3] and then a sudden fall in the price of cotton, following on the over-production resulting from the rapid rise in prices between 1833 and 1835, brought a general crash. All the banks in the country ceased payments in specie.[4]

With all this the tariff had nothing to do, for the reductions of duties under the Act of 1833 were not to be considerable until about 1840.[1] The financial distress was due simply to the confusion into which the policy of the Jackson Administration and the growth of speculation, stimulated by the great sales of public lands and excessive credit to purchasers, had thrown the credit system of the country; consequently there seems to have been no proposal made in any quarter for an alteration of the tariff or a return to a greater measure of protection. After the crisis there was the inevitable period of stagnation—commercial recovery was very slow; and the general depression may have been, and probably was, increased by the knowledge of the manufacturers that under the Act of 1833 the pace of the reduction of duties was now to quicken. But, nevertheless, the efforts towards a change in the Tariff Act were very slight, and met with little support. Two financial reforms only were made. In 1838 the State of New York began the policy of permitting the establishment of any bank without need of a special charter, on condition of its promoters depositing with the State Treasury securities to the amount represented by its issue of notes. And in 1840 the Independent Treasury Act was passed, under which the Treasury was itself to keep all the proceeds of the public revenue in its own hands (not making use of the banks) and to make and receive payments only in specie.[1]

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[1] Dewey, p. 225.

[2] *Ibid.*, p. 230.

[3] Between 1834 and 1837 flour rose from $5 to $11 a barrel, and corn from 53 cents to $1.15 a bushel; early in 1837 there were bread riots in New York (Wilson, p. 93).

[4] Stanwood, ii. p. 8.

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[1] Even Stanwood, who is strongly protectionist in sympathy, writes: "No candid student of history will hold that the Tariff Act of 1833 had even a slight direct influence, by an injurious effect upon domestic manufacture, in bringing on the crisis. The evidence is necessarily of a negative character, but it is conclusive. The fact that manufacturers were flourishing up to the time when the financial storm burst, as all authorities deemed that they were, is all-sufficing" (Stanwood, ii. p. 8). The connection of this and the following crisis with the tariff appears to have been a later invention of Henry Carey.

By the election of November, 1840, the Democrats were utterly discredited, in spite of some diplomatic successes of Van Buren, who had succeeded Jackson as President in 1837. The main defect of his administration had been his steadfast adherence to the financial policy of his predecessor, and his failure to devise any satisfactory measures for dealing with the commercial situation. The new political parties had now been definitely formed; on the one side were the Democrats, led by the President himself and Benton, with their advocacy of a conservative interpretation of the Constitution and their consequent opposition to the expenditure of Federal moneys on internal improvements, to Protection, and to the National Bank; and on the other side were the Whigs, as the Republican party of Clay and ex-President Adams was called since 1834, representing many diverse elements, but agreed upon a wide interpretation of the Constitution and protective legislation. Already there were signs of the difficulties to be caused later by the anti-slavery party—a more serious menace to the Democrats than to the Whigs, since the former were dependent for much of their political strength on the South.[1] The Whigs, not so much because of their new policy as because of the discredit into which the Democrats had fallen, were able to carry the election of Harrison, a successful soldier, as President in November, 1840, and immediately upon his taking office they prepared to commence financial legislation. They proposed to repeal the Independent Treasury Act, to re-establish the National Bank, to amend the tariff in order to meet the large Treasury deficit, and also to distribute amongst the states the proceeds of the sales of public lands, so that these would not henceforth be reckoned as a source of Federal revenue. But scarcely had these proposals been put forward when the President died, and was succeeded by Vice-President Tyler. The new President was not a Whig at all, but a discontented Democrat, who had been adopted by the Whigs as one of their candidates only in order to detach a certain number of votes from their opponents and to attempt to secure doubtful states. He was by no means in sympathy with their proposals, and immediately vetoed a Bill establishing a new National Bank. The Distribution Bill was carried only after some difficulties with the President and subject to the proviso (which in fact reduced it to impotence) that the distribution should be suspended if at any time it became necessary for revenue purposes to levy customs duties of more than 20 per cent. As a hasty expedient to provide money, a temporary Tariff Act was passed in September, 1841, laying a duty of 20 per cent. on all merchandise previously paying less, or free; there were, however, certain exceptions to this general rule, and the proposal to tax tea and coffee was rejected.[1]

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[1] Dewey, pp. 235–7.

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[1] Wilson, pp. 112–14. Cf. Johnston, *American Politics*, chaps. xiii. and xiv.

By the end of 1841, the financial situation was worse than ever. In spite of large issues of Treasury notes, there was a heavy deficit, and there seemed every likelihood that the final remissions of duty, now about to take place under the Act of 1833, would still further increase the difficulties of the Treasury. This fact, coupled with the general uncertainty, probably seriously hindered the manufacturers; and the commercial troubles had again become acute. In 1841 fifty-five banks had stopped payment; in January, 1842, six states, including Pennsylvania and Maryland, were unable to meet their obligations; and by the end of April twenty-six more banks were suspended.[2] It was absolutely necessary for some action to be taken, and after another temporary measure had been passed to prolong certain duties, Congress adopted in August, 1842, the new Tariff Act, which was carried only after much difficulty, and by means of complicated parliamentary manœuvres. It was passed by the Whigs and was therefore decidedly protectionist,[1] and was much more elaborately detailed than any of its predecessors. It was based on the Tariff Act of 1832, and in comparison with that it increased the duties on cotton manufactures, on glass, and on the cheapest wools, whilst it reduced the duties on woollens, wool, leather, and some other commodities. But in contrast to the position of the duties in 1841, which under the Compromise Act were drawing close to an all-round rate of 20 per cent., the Act of 1842 marks a distinct return towards Protection. The average duty was to be about 30 per cent., though on manufactured goods it was a good deal higher. There can, on the whole, be little doubt that the new Act had a distinctly beneficent effect,[2] mainly because it gave the manufacturers certainty as to the conditions under which their industries were to be carried on, and helped to improve matters in the iron and cotton industries, which contributed an impetus to all the rest. It is at any rate certain that in 1842 there began a revival of trade and commerce, and although such a revival must assuredly have taken place in any case, it is probable that it was quickened by the increased protection afforded by the new tariff. And from the point of view of revenue the new customs duties were quite satisfactory; in the year ending June 30th, 1844, and onwards, the Treasury found itself again in possession of a surplus.

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[1] One of the earliest acts of the new Whig administration was the repeal of the Independent Treasury Act in 1841. The Act was restored in 1846, and has remained in force since (Dewey, pp. 239, 252–5).

[2] Stanwood, ii. p. 18.

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[1] "It marks the last triumph of the protectionist policy before the Civil War" (Mayo-Smith and Seligman, p. 9).

[2] Stanwood becomes enthusiastic on the point. "The final plunge to the 20 per cent. max. rate of the compromise tariff was bringing the industries dependent upon protection to a standstill; and all business suffered in the stagnation of employment, in the cessation of the movement of money and goods, which are as the circulation of the blood in the body of commerce. The adoption of any improved tariff would have removed one cause of the existing evil—the uncertainty as to the future. The enactment of a tariff which promised prosperity and health to the starved manufacturers removed all causes, and actually restored the prosperity which it promised. There is no other enactment affecting the duties on imports, the effect of which is so clear, so indisputable as there was never another which worked so indisputably" (pp. 36-7).

Taussig is more moderate, but agrees that, in the manner indicated above, the tariff did have a decidedly good effect on the commercial and industrial situation.

But the tariff was not destined to remain long untouched. The Presidential election of November, 1844, resulted in the triumph of the Democrats, represented by Polk.[1] The new President was opposed to the whole protectionist system, though his colleague in the campaign, the Democratic candidate for the Vice-Presidency, was a Protectionist, and so was able to secure Pennsylvania for his party. In his first message to Congress, President Polk recognised the right of that body to levy customs duties, but advocated the limitation of the exercise of this power to revenue duties only. In December, 1845, his Secretary of the Treasury, Walker, presented to Congress a lengthy report on the tariff, which was simply an elaborate argument for Free Trade.[1] After expressing doubts as to the constitutional validity of protective duties, the Secretary proceeds to argue against them on economic grounds; and some passages from the Report may be quoted as illustrating his general line of argument. He wrote:—

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[1] The defeat of the Whigs was due in part at least to the abstension of the anti-slavery party, who threw away their votes on an independent candidate of their own.

"At least two-thirds of the taxes imposed by the present tariff are paid not into the Treasury, but to the protected classes. The revenue from imports last year exceeded twenty-seven millions of dollars. This in itself is a heavy tax; but the whole tax imposed upon the people by the present tariff is not less than eighty-one millions of dollars —of which twenty-seven millions are paid to the Government upon the imports and fifty-four millions to the protected classes in enhanced prices of similar domestic articles.

"The occasional fall in prices of some articles after a tariff is no proof that this was the effect of the tariff; because from improved machinery, diminished prices of the raw material, or other causes, prices may fall even after a tariff, but they would in such cases have fallen even more but for the tariff. The truest comparison is between the present price of the same article at home and abroad; and to the extent that the price is lower in the foreign market than in our own, the duty, if equal to the difference, must to that extent enhance the price, and in the same ratio with the lower duty.

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[1] Full text in Taussig, *State Papers*.

"An appeal has been made to the poor by the friends of protection, on the ground that it augments the wages of labour. In reply it is contended that the wages of labour have not augmented since the tariff of 1842, and that in some cases they have diminished.[1] . . . A protective tariff is a question regarding the enhancement of the profits of capital. That is its object, and not to augment the wages of labour, which would reduce those profits. It is a question of percentage, and is to decide whether money vested in our manufactures shall by special legislation yield a profit of 10, 20, or 30 per cent., or whether it shall remain satisfied with a dividend equal to that accruing from the same capital invested in agriculture, commerce, or navigation.

"The tariff is thus a double benefit to the manufacturer and a double loss to the farmer and planter—a benefit to the former in nearly a monopoly of the home market and in enhanced prices of his fabrics; and a loss to the latter in the payment of those high prices and a total or partial exclusion from the foreign market. The true question is whether the farmer and planter shall to a great extent supply our people with cheap manufactures purchased abroad with their agricultural products, or whether this exchange shall be forbidden by high duties on such manufactures, and their supply thrown as a monopoly, at large prices, by high tariffs, into the hands of our own manufacturers.

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[1] There seems to be no adequate evidence for this statement of the Secretary.

"Let our commerce be as free as our political institutions. Let us, with revenue duties only, open our ports to all the world; and nation after nation will soon follow our example. If we reduce our tariff the party opposed to the corn laws of England would soon prevail and admit all our agricultural products at all times freely into her ports in exchange for her exports. And if England would now repeal her duties upon our wheat, flour, Indian corn, and other agricultural products, our own restrictive system would certainly be doomed to overthrow."[1]

Proceeding from these principles, the Secretary advocated duties for revenue purposes only, with the imposition of maximum rates on luxuries, the abolition of all minimums and all specific duties, and the substitution of *ad valorem* rates.

The result of this policy of the President and his advisers was the Tariff Act of 1846, adopted after only a short, though at times exciting, parliamentary struggle. All minimums and specific duties were abolished, and commodities were divided into a number of classes with duties ranging from 5 per cent. to 40 per cent., and in the one case of brandy and spirits to 100 per cent.; there was also a class of free articles, the chief being tea, coffee, and iron and copper ore. Manufactures of iron and other metals, wool, and woollens paid 30 per cent., as did manufactures of leather and glass; cotton goods paid 25 per cent. On the whole, the duties were considerably lower than under the Act of 1842.

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[1] Bolles (ii. pp. 449–50) speaks of the British manufacturers "having zealously laboured for Polk's election, and contributed munificently to that end." He alleges that large sums of money were subscribed in England and expended on behalf of Polk's candidature in the United States. Elsewhere (p. 452) he speaks of the tariff of 1846 as "sponsored by the English nation." No satisfactory evidence for these statements is offered.

The new tariff remained in force for eleven years with practically no alterations, and during that period the United States experienced a very rapid economic development. Population increased from 17,069,000 to 31,433,321 between 1840 and 1860.[1] By 1850 the factory system was firmly developed,[2] but the population was still overwhelmingly agricultural; in 1850, when the first reliable census of the United States was taken, only 12·5 per cent. of the population were living in urban areas of more than eight thousand inhabitants.[3] The quantity of corn grown rose from 592 million bushels in 1850 to 839 million bushels in 1860, but so far the production was almost entirely for the home market. The total value of the manufactured products of the United States was estimated in 1850 at 1,019 million dollars, and in 1860 at 1,886 million.[1] A great stimulus had been given by the discovery of a number of new processes which came into general use from about 1845 onward. The year 1838 had witnessed the invention of Nasmyth's steam-hammer, and about 1840 anthracite coal began to be used for the production of iron; in 1841 the power-loom for carpet-weaving was invented, and some years earlier the knitting-frame had been first worked by machinery. The amount of pig-iron manufactured by the anthracite process was estimated in 1844 at 65,000 gross tons, and in 1856 at 394,000 nett tons.[2] The quantity of steel rails manufactured rose from 24,000 tons in 1849 to 184,000 in 1856.[3] The value of the American production of iron was estimated in 1850 at 60 million dollars, whilst imports amounted to only 16 million.[4] The number of cotton spindles employed in the United States was reckoned at 2,112,000 in 1840 and rose to 3,634,000 in 1850, and to 5,236,000 in 1860; whilst the value of the cotton goods exported averaged 4 million dollars between 1844 and 1849, and had doubled by 1859.[5] The woollen manufacturers were hampered by the duty of 30 per cent. on raw wool, and there was little advance in the production of woollens of the best quality; but in the coarser goods there was distinct progress, and the census figures give the value of the products of the woollen manufacture as 20 million dollars in 1840. 43·5 million in 1850, and 61·9 million in 1860.[1]

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[1] Allowance must be made for increases of territory (*e.g.* in Texas and Mexico) between these dates. Between 1846 and 1857 the United States received more than three million immigrants (Stanwood, ii. p. 87). In each of the five years after 1849 the annual number was over 350,000.

[2] "It was not until about 1840 that the factory method of manufacture extended itself widely to miscellaneous industries, and began rapidly to force from the markets the handmade products with which every community had hitherto chiefly supplied itself. It seems probable that until about the year 1850, the bulk of general manufacturing done in the United States was carried on in the shop and the household, by the labour of the family or individual proprietors, with apprentice assistance" (*Twelfth Census*, vii. p. liii.).

[3] As against 33·1 in 1900.

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[1] *Twelfth Census*, vol. vii. p. xlvii.

[2] Taussig, p. 132.

[3] Taussig, p. 134.

[4] Bolles, ii. p. 457.

[5] Taussig, pp. 141-2. Stanwood admits (ii. p. 90) that "the new tariff caused little injury to the cotton manufactures . . . the importation of cotton goods in 1846 was valued at $13,000,000; in 1855 it was only $15,500,000."

The foreign trade of the United States increased enormously. The following table gives the figures for imports and exports of merchandise from 1847 to 1857, when another alteration in the tariff was made:—

Year.	Imports. $	Exports. $
1847	122,424,349	156,741,598
1848	148,638,644	138,190,515
1849	141,206,199	140,351,172
1850	173,509,526	144,375,726
1851	210,771,429	188,915,259
1852	207,440,398	166,984,231
1853	263,777,265	203,489,282
1854	297,623,039	236,959,560
1855	257,808,708	218,909,503
1856	310,432,310	281,219,423
1857	348,428,342	293,823,760

It will be observed that there was a very large excess of imports over exports, but this was counterbalanced by the great export of gold after the discovery of the Californian mines. In 1848 the gold produced in the United States was valued at 10 million dollars; it rose to 40 millions in the following year, and then steadily to 64 millions in 1853. The customs revenue, which under the tariff of 1842 had reached 27½ million dollars, rose, in spite of the lower rates of duty, to 64 millions in 1856.

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[1] Taussig, p. 146. Against this must be set Stanwood's assertion (ii. p. 92) that "the new tariff practically ruined the woollen industry, which had revived and become fairly flourishing under the protection it received under the Act of 1842." Bolles (ii. pp. 456–7) shares this view, but both writers admit that one of the chief difficulties of the woollen manufacturers was the high duties imposed on raw wool.

Contemporary with this great economic development—at once a cause and a result of it—there was a rapid growth of means of transport. In 1840 there were 2,818 miles of railway in the United States; in 1850, 9,021; and in 1860, 30,635.[1] The net tonnage of vessels registered in the United States for over-sea trade was 900,000 in 1840 and 2,546,000 in 1860; the tonnage of other vessels, including those on the lakes and rivers, increased from 1,241,000 in the former year to 2,753,000 in the latter.[2]

It is entirely impossible to form any estimate of the influence of the tariff of 1846 upon the economic development thus briefly indicated; opinions on the subject differ with the general attitude of the writers towards the whole question of Protection and Free Trade. The critics of the tariff legislation of 1846 cannot profess that it did more than slightly retard the industrial progress of the United States; whilst its warmest supporters do not pretend that it did much to hasten the development. In fact, its effect in either direction was probably only small; the United States were just commencing to exploit their great resources, and the movement as a whole was sufficiently strong (whatever might be the case with isolated industries) to be practically unaffected by tariff enactments.[1]

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[1] Conner, p. 46.

[2] *Board of Trade Blue Book on British and Foreign Industry*, 1903, p. 376.

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[1] "The wonderful revolution which was taking place in commerce and in history makes it impossible to generalise from this experience as to the effect of import duties upon economic development; very likely prosperity would have followed under any system of revenue laws" (Dewey, p. 257). Cf. Taussig, pp. 116–22.

CHAPTER IV

WAR TAXATION AND ITS RETENTION FOR PROTECTIVE PURPOSES

During the eleven years after the passage of the Act of 1846, suggestions were made from time to time, particularly by the Whig Presidents, Taylor and Fillmore, for a revision of the tariff in order to increase the protection given to manufacturers; but their recommendations remained unheeded, and when a change was at last made it was in the opposite direction. The Democratic successor of Fillmore, Pierce, repeatedly urged the reduction of the tariff duties on the ground that the Treasury was in possession of a surplus. But partly because of the party confusion caused by the breaking up of the Democrats and the formation of the new Republican party, composed of the old Whigs and some of the Democrats, and partly because of the concentration of public interest on the slavery question, nothing was done until 1857. In that year an Act was passed, providing for a reduction of about 25 per cent. all round on the duties levied by the Act of 1846;

the highest protective duty henceforward was to be 24 per cent. (except in a few special cases), and the general level was lower than in any period since 1816.[1] The free list was extended, particularly for raw materials and the cheaper kinds of wool. The Act appears to have attracted very little public attention; no one was specially hostile to it, and the woollen manufacturers were anxious to secure the cheapening of their raw materials.[2] But it was somewhat unfortunate for the supporters of Free Trade that the passage of the Act, which reduced the duties to the lowest point they had reached for almost half a century, should have been followed almost immediately by a considerable financial crisis. There is no evidence that this was connected in any way with the tariff legislation, though some writers have alleged that the effect of the reductions of 1846 were now first felt, because had the old protective policy been maintained the crisis of 1857 would have been greatly mitigated.[3] The disasters of 1857 were of a familiar kind; they were the result of the over-confidence arising from a long period of prosperity, from the consequent growth of speculation, the over-development of railways followed by a decline in the value of railway stock, and from over-importation; and they were intensified by an unsatisfactory banking system and the excessive issue of unsecured paper money. The crisis came suddenly; it affected the merchants and bankers rather than the manufacturers; and there is nothing to show that it seriously hindered, even for a time, the industrial progress of the country. There was an abrupt fall in imports from 348 million dollars in the year 1856–7 to 263 million dollars in 1857–8, and the customs revenue declined from 64 million dollars to 42 million. The result was that the Treasury found itself again faced with a deficit, which continued for some time, and which it could not entirely meet even by means of loans.

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[1] Mayo-Smith and Seligman, p. 10. The two highest rates were reduced from 100 per cent. and 40 per cent. to 30 per cent. each; the 30 per cent. duties to 24 per cent.; the 25 per cent. to 19 per cent.; the 20 per cent. to 15 per cent.; and so on.

[2] Speaking of the woollen manufactures, Stanwood (ii. p. 109) has a curious phrase: "The situation previously existing was intolerable. . . . In the prevailing state of public opinion—made up of active hostility to Protection in the southern half of the country, and of indifference in the northern half, where the slavery question absorbed popular interest and left room for the consideration of no other business questions—they were hopeless of obtaining even a hearing upon the merits of the tariff controversy. They therefore asked for and ultimately secured *such a measure of protection as was afforded by cheaper raw material.*"

[3] So J. G. Blaine, quoted by Dewey, p. 264.

The financial needs of the Government revived the protectionist movement, but action was delayed for a time by the complications of party politics. At the election of November, 1856, the Democratic candidate, Buchanan, had been elected to the presidency, and the Democratic party was openly opposed to Protection. The new Republican party was for a time uncertain; it contained a number of ex-Democrats, and it was unsafe at first to alienate these by a public advocacy of Protection, whilst, on the other side, only such definite advocacy could secure the support of the great State of Pennsylvania and some other Middle States, whose action would probably be decisive at the next election. But by 1860 the advocates of the extension of the slave power had become so identified with the Free Traders, and the Republican party was so well united, that its leaders thought it safe to avow that " while providing revenue for the support of the general Government by duties upon imports, sound policy requires such an adjustment of these imposts as to encourage the development of the industrial interests of the whole country; and we commend that policy of national exchanges which secures to the working men liberal wages, to agriculture remunerating prices, to mechanics and manufacturers an adequate reward for their skill, labor, and enterprise, and to the nation commercial prosperity and independence." The Republicans controlled the House of Representatives which met in December, 1859, and therefore Morrill introduced in March of the following year the Tariff Act which has since been known by his name. In theory it was an Act for revenue purposes only and to meet the growing deficits, which totalled 50 million dollars for the years 1858–60; and it professed to restore duties to the rates of 1846. It encountered considerable difficulties, particularly in the Senate, where there was a Democratic majority, and the way only became clear for it when at the end of 1860 the secession of the Southern States, which followed closely on the election of Lincoln to the presidency, had withdrawn a number of Democratic Senators, and given the control of that House also to the Republicans. The new Act, as finally approved on March 2nd, 1861, did in fact put the duties above the level of 1846, chiefly by substituting specific for *ad valorem* duties, especially in the case of iron and wool, where an attempt was made to capture the vote of Pennsylvania and the West. Manufacturers, as a whole, cared little about the Bill.[1]

But the new tariff was short-lived; the Civil War commenced, and Congress found itself compelled to enter on a course of extraordinary financial legislation in order to meet the tremendous expenditure which the struggle involved. In August and December, 1861, duties were imposed on many articles hitherto free, and the rates on a number of commodities, such as tea, coffee, sugar, hemp, hides, rubber, silk, spices, and a few others, were largely increased. In the following year financial needs compelled Congress to have recourse to internal taxation, and the imposition of specific duties on home manufactures, such as iron and steel, paper and leather, and *ad valorem* duties on most others; a general income tax was also established. Partly in order to raise further supplies of money, and partly to compensate the manufacturers for the burdens which the new internal taxes imposed upon them, the Customs Act of July, 1862, again increased duties generally, raising them to an average of 37 per cent.[1] The free list established by the Morrill Tariff of 1861 was cut down by nearly one-half. But this was not the end; after some small additions, the culmination was reached in the Act of June, 1864, which was accompanied by an Internal Revenue Act, creating twenty-two new kinds of taxes—"a system of taxation more comprehensive, more burdensome, and more confused than it has ever been the lot of any other civilised community to bear"[2]—and the issue of a huge loan. The Customs Act raised the average duty to 47 per cent., and enumerated 1,450 separate articles; it increased the customs revenue from 108 million dollars in 1863–4 to 209 million in 1864–5. The difficulties arising from the heavy burden of taxation were increased enormously by the rapid rise of prices, due in part to the depreciation of the inconvertible paper currency, which reached its lowest point in the last six months of 1864, when the average gold price of 100 dollars in currency was only about 43 dollars. Average prices rose 117 per cent. between 1860 and 1865, and money wages rose only 43 per cent.[3]

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[1] Mr. Morrill is reported to have said later that the tariff of 1861 "was not asked for, and but coldly welcomed, by manufacturers, who always and justly fear instability" (Taussig, p. 160).

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[1] Mayo-Smith and Seligman, p. 12. "If we bleed manufactures we must see to it that the proper tonic is administered at the same time" (Morrill, quoted by Taussig, p. 162). The duties on imports were required to be paid in specie, whilst internal taxes were paid in the rapidly depreciating currency of the United States (Bolles, iii. p. 186).

[2] Mayo-Smith and Seligman, p. 13.

[3] Dewey, pp. 293–4.

Unfortunately the manufacturers desirous of protection found their opportunity in the difficulties of the Government. It is true that they could reasonably claim some compensation for the heavy burdens laid upon them by the system of internal taxation which had been adopted, but they went much further than this.[1] They secured an almost unlimited protection, and their action and the general effect of the war tariff on the United States, are thus described by two of the ablest economists of that country: "The tariff of 1864 is the real war tariff, and the basis of the present tariff. While the main reasons of its passage were without doubt the need of increased revenue for the Government and the desire to compensate the various interests for the burdens imposed on them by the internal revenue, it is undeniable that its final shape was largely owing to the endeavours of the protected manufacturers to gain each for himself the greatest possible advantage irrespective of the other's interests. Above all, the habits engendered during this period of comprehensive protection to everything led to a crystallisation of the sentiment in favour of national exclusion and isolation. The commercial policy of the United States for many decades was moulded by the feelings and habits generated during this period of the Civil War. Henceforth the movement in favour of high protection, which still in great part dominates the American people, was to become the leading feature in the commercial and political life of the country. What was in its origin a mere temporary expedient called forth by the exigencies of a great military struggle was to become a permanent institution."[1]

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[1] "The Bill (of 1864) is full of examples of their prowess" (Stanwood, ii. p. 129).

For a number of years after the close of the Civil War the tariff policy of the United States remained absolutely unchanged in its general character. The effects of the war had been bad enough in the North, but they were far worse in the South. In the states which had remained loyal to the Federal Government there had been indeed a terribly heavy burden of taxation, but to some extent compensation had been found for this in the growth of manufactures, under the high duties required to meet the expenses of the war. But on the contrary, the Southern States, dependent on the sale of their produce in foreign markets, had found their export trade destroyed by the rigorous blockading of their ports by the Federal Navy, and had practically no manufactures capable of development; moreover, as they had but a small population and were compelled to maintain vast armies, there had been little labour left available for agriculture or industry. This, coupled with a system of taxation even more oppressive than that employed in the North, had brought the South almost to complete economic ruin. Now, after the war was ended, the newly confirmed Union found itself confronted with an extremely heavy debt (2,760 million dollars), and a greatly depreciated currency (owing to the large amounts of inconvertible paper money issued by both sides during the conflict); the great ravages caused by military operations, particularly in the South, had to be made good; and the old slave states had the difficult problem of replacing slave by free labour, at a time when they were financially least able to do so.

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[1] Mayo-Smith and Seligman, pp. 13–14.

The most urgent task was financial reorganisation, but it was undertaken only gradually, and in a one-sided manner; the tariff remained for some years untouched in most respects. For the delay, three reasons may be assigned.[1] There was first the concentration of the attention of Congress on the problem of reconstruction. The President, Andrew Johnson, was inclined to follow in the treatment of the Southern States the liberal policy of his predecessor, Lincoln. But he possessed neither the power nor the judgment of Lincoln; and, moreover, he was a Southerner, and though a strenuous supporter of the Union, inclined to hold the doctrine of state rights. The triumphant Republican party of the North would have nothing to do with the President's conciliatory policy; it meant to use its power to the utmost, and adopted the theory that it could do what it liked in the reconstruction of the Southern States, and could, so far as they were concerned, suspend the Federal

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[1] *Ibid.*, pp. 14–15.

Constitution indefinitely. With the policy and methods actually adopted by Congress we are not concerned here. It is necessary only to point out that it was not until the beginning of 1871 that all the states of the Union were once more represented in Congress, and that during the four years of Johnson's Presidency (1865–9) there was an incessant conflict between the President and the legislature, which absorbed the energies of both parties.[1] The second reason was the desire to get rid as quickly as possible of the internal taxes, always peculiarly repugnant to Americans, and especially the income tax. These constituted burdens which were severely felt by everyone, and felt directly; they undoubtedly hampered industry in every conceivable way. It was therefore decided to remove them as quickly as possible, and by a series of Acts between 1867 and 1872 all were swept away except the excise on beer and spirits, and duties on matches, patent medicines, and a few other commodities. The heavy import duties had been imposed, professedly at least, in part to compensate the manufacturers for the burden of the internal taxes, and, therefore, theoretically either the war surtaxes on imports should have been abolished at the same time as the internal war taxes, or if financial considerations made that impossible, there should have been a simultaneous partial reduction of both classes. But the desire to get rid of the internal taxes was too strong; it therefore became necessary to maintain the import duties at a high level in order to meet the heavy cost of government, to prepare the way for the resumption of specie payments, and to reduce the debt as rapidly as possible. This retention of duties at the high level coincided with the desires of the manufacturers, who flourished (or thought they flourished) as a result of the protection afforded them, and could urge with justice that there were a number of industries which had been called into existence by the high tariff and the war, and must collapse if protection were withdrawn. The country seems to have made up its mind without much difficulty that for a time at least the extreme protective system must be maintained, and even in some cases increased.[1]

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[1] See Wilson, pp. 254–72.

In 1867 a Bill was introduced, prepared by a newly appointed Special Commissioner of the Revenue, and supported by the Secretary of the Treasury, which proposed to reduce duties on raw material—lumber, dyes, coal, flax, and others, and to reduce slightly duties on manufactured goods.

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[1] "The whole industry of the country gradually adapted itself to the existence of the high tariff, and the people soon became convinced of the advantages of a policy of commercial stability. . . . Just as the country had accommodated itself to the so-called Free Trade policy of the period 1846–57, so now again the tendency seemed to be averse to any sudden change" (Mayo-Smith and Seligman, p. 15). "The country at large, and especially those parts of it in which the protected industries were concentrated, began to look on the existing state of things as permanent. The extreme protective system, which had been at first a temporary expedient for aiding in the struggle for the Union, adopted hastily and without any thought of deliberation, gradually became accepted as a permanent institution" (Taussig, p. 174).

The Bill secured a majority in both Houses of the Legislature, but it did not pass, owing to the failure to secure the two-thirds majority in the House of Representatives necessary to overcome certain technical difficulties. The attempt to reduce duties had then failed, and no further effort was made until 1870, whilst, on the contrary, two Acts were passed with the opposite effect. The first of these was the Woollens Act of 1867. During the war there had been a considerable development of the manufacture of woollen goods, owing partly to the practical cessation of the manufacture of cottons, and partly to the great demand for clothing for the Federal troops. With the return of peace, these abnormal conditions passed away, and the woollen manufacturers found themselves in face of a crisis. They began therefore, as early as 1865, to bring pressure upon the Government; and they were skilful enough to make it appear that the growers of wool were in agreement with them. They succeeded in obtaining in the new Woollens Act an extension of the so-called "compensation system," which had been adopted for the first time in the Morrill Tariff of 1861.[1] The plan then adopted was simply this: there was a specific duty imposed on wool; it was therefore thought necessary to give the manufacturers, in addition to the *ad valorem* duty which was intended to afford them protection, a specific duty to compensate them for the duty on raw wool, and the consequent increase in price of their raw material.[1] The duties so imposed under the Morrill Act had, like all others, been increased during the war, and the manufacturers now asked for and obtained a still further advance of nearly 100 per cent. in the actual amount of the duties, though this was to some extent concealed by an elaborate reclassification. The manufacturers got more than the amount of the compensation which they might perhaps have justly claimed; they benefited by the Woollens Act more than the growers of wool, yet it did not yield them anything like the results which they expected. "The Wool and Woollens Act of 1867 was designed expressly to make possible the production at a profit of goods from the wool fibre. It did not effect that object, nor did it accomplish that which was equally its object, the growing of wool at a profit. On the contrary, wool declined in price and the manufacture of wool was greatly depressed. . . . It is not possible to doubt that the price of woollen and worsted goods must be enhanced so long as a duty is laid upon wools which are not produced in this country and which are yet necessary for mixing with the domestic wool. This is but to state a fact, and not to pronounce a judgment upon the expediency of the system. It is a consequence of the enhanced price that the consumption of woollen goods has never had, and cannot have, an expansion like that which has taken place in cotton, in sugar, in iron, and in many other articles. Wool and woollens are always the strongest arguments of the Free Trader, and the most difficult to answer."[1]

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[1] Taussig, pp. 195 *seq.*

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[1] Thus the duty on the cheaper wool was 3 cents per lb., and it was estimated that four lbs. of wool were required for each lb. of cloth; therefore the compensating duty imposed on each lb. of cloth imported was 12 cents (the idea being that this put the manufacturer in the same position over against foreign competition as if he received the wool duty free), and 25 per cent. *ad valorem* for actual protection.

Similar advances were made by the Copper Act of 1869. The duty on copper ore before the war had been only 5 per cent. *ad valorem*, and on copper bars and ingots only 2½ cents per lb.; but in the late sixties the copper mines of the Lake Superior district were producing so largely that the price of copper fell rapidly, and the mine owners began an agitation for the increase of the import duties. Early in 1869 the duty on copper ore was made specific, and increased to somewhere between 25 per cent. and 30 per cent. *ad valorem*, whilst the duty on copper bars was doubled. The Bill was veteod by the President, but was passed in spite of him, and incidentally had the effect of closing a number of smelting-works at Boston and Baltimore, which had been engaged in the smelting of imported ores. At the same time, the price of home-produced copper in the United States was raised.[2] Some other increases of duty were the substitution of specific for *ad valorem* duties on steel rails in 1870—a change which made the duty heavier as prices fell

[1] Stanwood, ii. p. 169.

[2] Taussig, pp. 220–1.

after about 1873; on marble also by the Act of 1870; on nickel, for which the rates were doubled in the same year; and even on such an important raw material as flax.

Yet gradually the necessity for some changes in the opposite direction was making itself felt, and the impression in favour of reform was strengthened by the persistent advocacy of the Commissioner of Revenue, Mr. Wells. In 1870 the first step was taken, but the reductions then made were confined almost entirely to the non-protected commodities. That is to say, the duties on such revenue articles as tea, coffee, cocoa, sugar, spices, and wines were lowered; there was also an addition to the free list of 130 articles, chiefly raw materials and foodstuffs.[1] The only really protective duty reduced was that on pig-iron, by about 22 per cent., and as we have seen, some duties on flax, marble, nickel, and steel rails were increased. The net effect was a partial mitigation of the tariff, but an increase of the financial dependence of the Federal Government on the strictly protective duties as a source of revenue. The feeling in favour of tariff reform steadily increased, especially amongst the farmers, who were dissatisfied with the manner in which Congress seemed to regard only the interests of the manufacturers, and were forming in the West the political association of the "Patrons of Husbandry," or "Grangers." The movement was aided by the condition of the finances; the Exchequer revenue from customs rose from 194½ million dollars in 1869–70 to over 216 million in 1871–2, and the surplus revenue exceeded the amount required for the Sinking Fund. The Protectionists in Congress came to the conclusion that it was desirable to give way to some extent, and they resolved to continue the policy of 1870. They accepted a Bill introduced in the Senate in 1872, which made a reduction of 10 per cent. on cotton, wool, woollens, metals, paper, glass, and leather manufactures,[1] and also lowered the duties on coal and steel. But they added to this a reduction of the customs and excises on whisky and tobacco, and the abolition of the duties on tea and coffee.[2] Whilst apparently a concession to Free Trade, the new Act really strengthened the position of Protection; its authors had gratified the general desire for a reduction of taxation, but they had done this particularly in regard to internal duties and what may be called "breakfast-table taxes"; and consequently, as in 1870, they had made the country still more dependent for Federal revenue upon the purely protective duties. They believed quite correctly that should it become necessary to raise more revenue, it would be easier for them to increase the protective duties than for the Free Traders to re-establish revenue taxes.[3] The accuracy of their calculations was soon to be proved. In 1873 there were grave commercial difficulties in the United States—part of the almost universal crisis of that year.[1] Imports, which had risen rapidly from 1870 onwards, fell rapidly, and so did the customs revenue in consequence. The following table gives the figures of American foreign trade from 1870 to 1875 (in million dollars):—[2]

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[1] Stanwood, ii. p. 173.

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[1] A method known as the "horizontal" reduction of duties.

[2] Mayo-Smith and Seligman, p. 19. Cf. Taussig, pp. 184–9.

[3] "The removal of the tea and coffee duties in 1872 served to fix for a long time the character of our legislation on the revenue articles of which they are the type. Step by step, in the various Tariff Acts

Years ending June 30.	Exports.	Imports.
1870	393	436
1871	443	520
1872	444	627
1873	522	642
1874	586	567
1875	513	533

(It was not until 1868 that the American returns of foreign trade were put on a really satisfactory basis, as a result of the efforts of Mr. Wells and General Walker, the well-known American economist.[3]) The fall in the customs revenue gave the

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passed since the war, all the non-protective duties have been swept away. By far the most important recent legislation in this direction was the removal of the duties on sugar in the Act of 1890, a change which, like the removal of the tea and coffee duties in 1872, emphasised the determination of the Protectionists to give up the simplest and surest sources of revenue rather than yield an abatement of the protective duties" (Taussig, pp. 188–9).

[1] "In the United States the phenomena antecedent to the crisis were enumerated at the time to be, 'a rise of prices, great prosperity, large profits, high wages, and strikes for higher; large importations, a railway mania, expanded credit, over-trading, over-building, and high living.' The crisis began on the 17th of September, 1873, by the failure of a comparatively unimportant railway company." By the 29th twenty banking houses failed (Wells, *Recent Industrial Changes*, p. 5).

[2] Mayo-Smith and Seligman, p. 46.

[3] See Worthington Ford's article on "Financial Tariff Comparisons" in the *Political Science Quarterly*, vol. xiii. No. 2.

Republicans their opportunity,[1] and their action was hastened by the fact that their long tenure of absolute power was coming to an end. The country had been growing more and more dissatisfied with the unsatisfactory results of General Grant's second Presidency, and the Republicans were discredited by a number of legislative and administrative scandals.[2] It was clear that the new Congress would have a strong Democratic majority in the House of Representatives, and the Republicans resolved to make the most of the short time left to them. In February, 1875, they carried an Act which repealed the "horizontal" reduction made in 1872, and increased the duty on molasses, sugar, tobacco, and spirits. The Act passed without very great difficulty, though the President and his Secretary of the Treasury were both in favour of the re-establishment of the revenue duties on tea and coffee. The result, then, was simply a return to the high war rates with such additions as had been made in 1867, 1869, and 1870. In criticism of the proceeding it is only necessary to quote the judgment of the most recent historian, himself a strong advocate of the principle of Protection. Of the Republicans he writes: "When they were forced to give up the control of the lower House of Congress, and thus to surrender the power to initiate revenue legislation, they signalised their last day of unlimited authority by restoring the duties levied for purposes of protection to the giddy height they had attained when war's terrible greed of money insured a favourable response to every request manufacturers might make for higher rates. . . . As a political move the passage of the Act seems ill-judged. . . . It divided men into two parties of extremists, at a time when moderate counsels would have produced a reasonable tariff system that might have stood unchanged for several years. At almost every succeeding period of Congressional or Presidential election until 1896 the tariff was an issue in the canvass, to the great disturbance and distress of business, and during the short period of fourteen years, from 1883 to 1897, there were four complete revisions of the tariff. It would not be fair to lay all the uncertainty and anxiety which the agitation produced to the charge of the Republicans in the forty-second Congress. But it is certain that they had more regard for the interests of the moment than a statesmanlike foresight of the consequences of their eager grasp at a vanishing opportunity."[1]

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[1] They could point to the fact that the customs revenue, as a result of the legislation of 1872, had fallen from 216 million dollars in 1871–2 to 163 million in 1872–3.

[2] Wilson, pp. 281–3.

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[1] Stanwood, ii. p. 191.

CHAPTER V

POLITICAL PARTIES AND THE TARIFF—ECONOMIC PROGRESS OF THE UNITED STATES TO 1890

THE Act of 1875 was followed by a lull in tariff legislation which lasted, in spite of one or two attempts at renewed activity, for eight years. Towards the end of that period the country had recovered from the acute commercial depression which had followed the disasters of 1873; the Government found itself able to resume specie payments in 1879; the Southern States were rapidly adjusting themselves to their new economic conditions; manufactures had greatly increased, if not so rapidly as during the war period, yet to an extent altogether satisfactory when the retarding effect of the commercial disorders is taken into account.[1] Foreign trade was flourishing; as the following table shows, exports reached their highest point in 1881 (the advance being chiefly in agricultural produce, partly as a result of the extension of the transcontinental railway system of the United States), whilst imports made a great upward bound in the early eighties, and the increase of customs revenue gave the Treasury a surplus in 1881. The figures are million dollars.[1]

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[1] The census estimates of the value of the manufactured products of the United States are: 1860, 1,885 million dollars; 1870, 4,332 million dollars; 1880, 5,369 million dollars. It should be noted, however, that the increase between 1860 and 1870 was somewhat less, and the increase between 1870 and 1880 somewhat more, than appears from these figures; since the valuation was based in 1860 on a gold currency, and in 1870 on a very unsatisfactory paper currency. The estimates themselves are by no means complete, but they are fairly indicative of the progress made.

Year.	Imports.	Exports.	Exports of Agricultural Produce.
1876	461	540	456
1877	451	602	460
1878	437	695	536
1879	446	710	546
1880	668	836	686
1881	643	902	730
1882	725	751	552

The Democratic party had persistently advocated a reduction of the customs duties, and the establishment of a tariff for revenue purposes only ; and now that in 1880 and 1881, with the rise of the customs revenue from 215 million dollars in 1878–9 to 386 million in 1879–80, the Treasury found itself again in possession of a surplus,[2] it seemed to the Republicans, who still retained power, but saw signs of their approaching fall,[3] desirable to make some concessions to the popular feeling in favour of a reduction of Federal revenue and a mitigation of the high protective duties. Accordingly, in 1882 a commission was appointed "to take into consideration and to thoroughly investigate all the various questions relating to the agricultural, commercial, mercantile, manufacturing, mining, and industrial interests of the United States, so far as the same may be necessary to the establishment of a judicious tariff, or a revision of the existing tariff, upon a scale of justice to all interests."[1] The composition of the commission did not encourage any hope of reform in the direction of Free Trade;[2] its members, or some of them at least, seem to have interpreted their instructions to mean simply that they were to make such modifications of the existing duties as would be likely to remove some part of the public hostility without in fact affecting the protective character of the tariff. The commission, however, admitted in its report "that a substantial reduction of tariff duties was demanded, not by a mere indiscriminate popular clamour, but by the best conservative opinion of the country, including that which has in former times been most strenuous for the preservation of our national industrial defences."[1] By the end of the year the committee felt itself able to report, and legislation was commenced on the lines which it indicated. The new Tariff Act became law in March, 1883, after the House of Representatives, with its strong protectionist majority (including a number of Democrats), had made considerable alterations in the bill as passed by the Senate, where it was first introduced.[2] It was therefore not approved by all the Republicans, but those who disapproved would not vote against it.

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[1] The table is taken from Mayo-Smith and Seligman, pp, 46. 8.

[2] The debt was reduced from 2,046 million dollars in 1870 to 1,723 million in 1880 ; in the two years 1878–80 the reduction was 100 millions.

[3] They had lost at Congressional elections, and they had nearly lost the Presidential election of 1876. In 1880 they did better, but it now seemed likely that they would lose their hold on the Executive Government.

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[1] Quoted in Stanwood, ii. p. 203.

[2] "Four of the commissioners were themselves personally or officially interested in industries classed as protected. All the commissioners, without exception, were favourable to the principle of Protection" (Stanwood, ii. p. 204). The chairman was the Secretary of the most energetic protectionist association in the country, the National Association of Wool Manufacturers.

In a number of cases duties were reduced. In the case of raw wool, hitherto subject to a combined specific and *ad valorem* duty, the *ad valorem* portion was remitted—the effect being a real reduction on carpet wools, which were not produced in the United States at all; a small reduction of little importance on the better kinds of ordinary wools; and the maintenance of a practically prohibitive rate on the inferior grades. As a consequence of this reduction of duty on the imported raw material, the "compensating" specific part of the duty on woollen goods was likewise diminished—somewhat more than proportionately; but in the case of the finer qualities of goods this remission was counterbalanced by an increase in the *ad valorem* rates. On the cheap kinds of cotton goods, the decrease of duty was 50 per cent., but these were hardly imported into the United States at all; silks were largely imported, so the *ad valorem* rate was lowered only some 16 per cent. On pig-iron the duty was lowered very slightly, from $7 to $6.72 a ton; on steel rails, on the other hand, the reduction was 40 per cent. (from $28 to $17 a ton), though a fall of prices between 1881 and 1887 deprived this change of much of its force. Other reductions of varying degrees of importance were on marble, nickel, and copper.[1]

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[1] Quoted in Dewey, p. 421.

[2] The passage of the Bill was accompanied, and promoted, by the usual complicated parliamentary manœuvres and manipulation of rules (Stanwood, ii. pp. 207–18).

None of these changes were of sufficient value to secure a favourable reception of the new tariff by the advocates of freer trade, whilst other alterations were of a nature to arouse their hostility. There were a number of distinct advances in the customs rates, and, as was perhaps to be expected, the chief advantage was reaped by the woollen manufacturers. Thus the duty on dress goods, which have never been manufactured in any large proportion in the United States, was increased, in spite of the fact that the tax on imported wool was at the same time lowered; the *ad valorem* duty on the higher valued kinds of fine cloths was also raised. On the best grades of cotton goods, such as embroideries and hosiery, there was a rise of about 14 per cent. The duties on various steel manufactures (chiefly machinery parts, such as rods and shafts) were also increased, as were those on quicksilver and a number of manufactures of brass, pewter, tin, and lead.[1]

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[1] Taussig, pp. 239–49.

The changes were then, on the whole, of no great effect in any direction.[2] The average duties were in 1882–3 42·45 per cent., and in 1883–4 41·61 per cent. Practically nothing was changed, and so far the protectionist party might count the new tariff as yet another addition to their long list of victories. Some attempts were made in 1884 and 1886 to renew the tariff discussion, and reduce duties, but without success, partly owing to the fact that people were tiring of the constant changes, and partly because the Democratic party was by no means unanimous on the subject. A revolt of some of its members defeated the Morrison Bill of 1884. Consequently, in spite of the fact that the Democratic victory in the election of President Cleveland in November, 1884, gave that party for the first time since Buchanan left office the control of the Executive Government, nothing was done during its four years of power. But in December, 1887, the President, in his annual message to Congress, declared uncompromisingly in favour of a very considerable reduction of duties.

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[1] Taussig, pp. 233–8. "As a rule duties were advanced on protected articles of which importations continued in considerable volume. The advance was by no means universal . . . but it was made in so large a number of important cases as to give the Act a distinctly protectionist flavour."

[2] "Although the changes in the rates of customs duties were numerous, few of them were large enough to work a perceptible alteration in the conditions under which either commerce or manufacturing industry was prosecuted" (Stanwood, ii. p. 218).

After referring to the increased cost to the home consumer of all commodities, wherever produced, as a result of Protection, the President continued: "It is not proposed to entirely relieve the country of this taxation. It must be extensively continued as the source of the Government's income; and in a readjustment of our tariff the interests of American labour engaged in manufacture should be carefully considered, as well as the preservation of our manufactures. It may be called Protection, or by any other name, but relief from the hardships and dangers of our present tariff laws should be devised with especial precaution against imperilling the existence of our manufacturing interests. But this existence should not mean a condition which, without regard to the public welfare as a national exigency, must always insure the realisation of immense profits instead of moderately profitable returns. . . . We are in the midst of centennial celebrations, and with becoming pride we rejoice in American skill and ingenuity, in American energy and enterprise, and in the wonderful natural advantages and resources developed by a century's national growth. Yet when an attempt is made to justify a scheme which permits a tax to be laid upon every consumer in the land for the benefit of our manufacturers, quite beyond a reasonable demand for governmental regard, it suits the purposes of advocacy to call our manufactures infant industries, still needing the highest and greatest degree of favour and fostering care that can be wrung from Federal legislation." Already the President called attention to the trusts, and their probable effect on home prices when foreign competition was eliminated; and he ended by declaring that "it is a *condition* which confronts us, not a theory. . . . The simple and plain duty which we owe the people is to reduce taxation to the necessary expenses of an economical operation of the Government. . . . These things can and should be done with safety to all our industries, without danger to the opportunity for remunerative labour which our working men need, and with benefit to them and all our people, by cheapening their means of subsistence and increasing the measure of their comforts."[1]

The message established a distinct line of division between political parties; it committed the Democrats finally to Free Trade, and therefore identified the Republicans with Protection; and it provided a clear and definite issue for the Presidential election of November, 1888.[2] The two rival policies to be placed before the country were exemplified by two Bills—one (the "Mills Bill") introduced and passed in the House of Representatives by a substantial Democratic majority, and the other brought forward in the Senate by the Republicans.

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[1] *Congressional Record*, vol. xix. part i. pp. 10–11.

[2] "From that time on, the tariff question became the chief line of division between the two great political parties" (Mayo-Smith and Seligman, p. 23). It had the effect of "making this question more distinctly a party matter than it had been at any time since the Civil War" (Taussig, p. 253).

The former proposed to abolish the duties on a large number of raw or semi-manufactured materials of industry, such as wool, flax, hemp, jute, tin plates, and on other articles, as salt and soap; and to reduce the duties on woollens, cotton goods, iron, earthenware, and sugar; it also substituted *ad valorem* for specific duties in many cases. It was estimated that the result would be a loss to the revenue of about fifty million dollars.[1] On the other side, the Senate Bill made some reductions and readjustments, but in a large number of cases increased the duties. Neither Bill passed, or was expected to pass; but the country had a definite choice offered to it, and the elections of November, 1888, gave a narrow victory to the Republicans by the return of President Harrison; and in spite of some disturbing influences, they were entitled to consider this as a decision in their favour on the tariff question. In their election "platform" they had declared that they would "effect all needed reduction of the national revenue by repealing the taxes upon tobacco, which are an annoyance and burden to agriculture, and the tax upon spirits used in the arts and for mechanical purposes, and by such revision of the tariff laws as will tend to check imports of such articles as are produced by our people, the production of which gives employment for labour; and release from import duties those articles of foreign production, except luxuries, the like of which cannot be produced at home. If there shall still remain a larger revenue than is requisite for the wants of the Government, we favour the entire repeal of internal taxes, rather than the surrender of any part of our protective system, at the joint behest of the whisky trust and the agents of foreign manufacturers."[1] They now resolved to make full use of their new lease of power, and the result appeared in the McKinley Tariff of 1890.

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[1] Details in Mayo-Smith and Seligman, pp. 24–5.

It was not possible for them to argue that the country required more Protection—the proposed new tariff was the outcome rather of political events than of the economic condition of the United States. By 1890 industry and commerce had recovered from the depression and become free from the difficulties which had more or less hampered them since about 1873, and become acute for the last time in 1885–7; and the country was now making a rapid advance on the upward path. Population had increased from 38½ millions in 1870 to 62½ millions in 1890; and the development was particularly marked in the great agricultural states of the Middle and North-West. The total production of grain was estimated in 1870 at 761 million bushels (it had gone back somewhat during the Civil War period), in 1880 at 1,755 million, and in 1890 at 2,122 million.[2] Railways had advanced with extraordinary rapidity, particularly in the decade 1880–90; in 1870 there were 60,000 miles in the United States; in 1880, 93,000; and in 1890, 164,000. With this development there had come a great cheapening of the cost of transport; the charge for the carriage of a bushel of wheat from Chicago to New York fell from 30½ cents in 1868 to 14½ cents (or rather less than one-half) in 1888.[1] These changes had greatly stimulated agriculture, and rendered possible the growth of the export trade in agricultural products, which from 1875 to 1890 averaged about 75 per cent. of the total exports of the United States.[2] Beside grain, the most important product so exported was cotton; the output of that raw material fluctuates considerably, but it rose from an average of 3,325,000 bales in 1869–73 to an average of 6,553,000 bales in 1885–9, whilst the export advanced in about the same proportion—from 1,040 million pounds in the former to 2,015 million in the latter period.[3] The manufacturing industries were increasing with equal or even greater rapidity; the value of their products was estimated at the census of 1870 at 4,232 million dollars, and in 1890 at 9,372 million, and the increase was even greater than it appears in these figures, since the former estimate was based on a depreciated paper currency, and the latter on the gold currency.[4] The average production of pig-iron for the years 1870–4 was

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[1] Quoted in Stanwood, ii. p. 238.

[2] *Twelfth Census*, vol. vi. p. 23.

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[1] Conner, p. 47.

[2] Mayo-Smith and Seligman, p. 48.

[3] *Ibid.*, p. 5.

[4] *Twelfth Census*, vii. pp. xlvii. *seq.*

2·2 million tons; by 1890 the amount was 9·3 million. In 1871, 34,100 tons of Bessemer steel rails were manufactured, and in 1872, 84,000 tons; in 1890, the total of 1,871,000 tons was reached.[1] The quantity of cotton consumed in the country was 486 million pounds in 1869, and 1,060 million in 1889. The consumption of wool was increasing, and required the whole of the home production, together with a growing import, but the manufacturers were still far from able to cope with the home demand. The industrial progress was no longer confined to the Northern and Middle States; the South also was begginning to have its share, especially in the case of cotton goods. The one unsatisfactory feature was the condition of American shipping and shipbuilding; between 1870 and 1890 the tonnage registered for over-sea trade declined from 1,517,000 to 947,000, though there was an increase in river and lake shipping. In spite of various Navigation Acts, and partial remissions of duty on goods borne in American vessels, the percentage of the United States' foreign trade carried in native vessels fell from 66·5 in 1860 to 35·6 in 1870 and to 12·3 in 1890.[2] So far as the shipbuilders were concerned, there was little doubt that this was due to the impossibility of obtaining, under the existing tariff conditions, material sufficiently cheap to enable them to compete with Great Britain, where also wages were lower. The figures for the total foreign trade up to 1883 have already been given; the following table carries them up to 1890:—

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[1] Taussig, p. 416.

[2] Mayo-Smith and Seligman, p. 57.

Year.	Imports.	Exports.
1883	723	824
1884	668	741
1885	573	742
1886	635	680
1887	692	716
1888	724	696
1889	745	742
1890	789	858

CHAPTER VI

THE NEW THEORY OF PROTECTION, AND THE McKINLEY TARIFF

It was clearly difficult for the advocates of Protection to urge the "infant industries" doctrine any longer (save in one or two special cases). Perfectly valid as this argument may have been in the early days of the industrial history of the United States, it could not now serve the Republicans as their avowed principle of action, and they found it necessary to provide themselves with another and more defensible theoretical basis for the practice of Protection. They therefore turned to the ideas of the home market and national self-sufficiency; their policy had, indeed, from the first been in that direction, but was now to become so more definitely. "The world's progress is now dependent upon the development of internal resources, and not of external trade. We need a systematic development of all those opportunities for labour with which each country has been endowed by nature. We must make a better use of all our natural resources if the world is to advance to a higher industrial state. Progress must come from the development of large continental states, rich in natural resources."[1] Protection is to be no mere temporary expedient; it becomes "a consistent endeavour to keep society dynamic and progressive. Protection also ceases to be an isolated exception to the general passive policy which it has been popular to advocate, and becomes a part of a fixed national policy to increase the value of labour with the increase of productive power, and to aid in the spread of knowledge and skill and in the adjustment of a people to its environment."[2] This by itself was somewhat too subtle an argument (at least in such a form) for popular use, but it was interpreted by the Republicans at the election of 1888 as implying the necessity for the protection of the highly paid American workman against the competition of the ill-paid European labour. This was to be done, not by the exclusion of European commodities, but by the imposition of duties which would counterbalance the disadvantage of the greater cost of production in America, and also give a moderate protection. It would thus protect labour, for it "cut off the privilege of the foreigner to come in with cheaper wares and to gain a foothold in the market, if perchance he had gone forward at a little more rapid pace than the American in adapting his manufacture to new conditions. It relieved the home manufacturer from the necessity of cutting down wages, supposing that he could have reduced them; and in this respect the tariff was a boon to the working man."[1] This wages argument was not new—it had first made its appearance in the thirties, and had been discussed slightly in the debates on the tariff proposals of 1842 and 1846; but it appears not to have become prominent until the eighties. Even the Democrats felt it necessary to take somewhat the same line. In 1884 they had been careful in their "platform," whilst asserting that reform was urgently required, to add that "the necessary reduction in taxation can and must be effected without depriving American labour of the ability to compete successfully with foreign labour, and without imposing lower rates of duty than will be ample to cover any increased cost of production which may exist in consequence of the higher rate of wages prevailing in this country."[2] And even in 1888, when their demands had much increased, they kept the proviso that the revision must be "with due allowance for the difference between the wages of American and foreign labour." But their attitude was not satisfactory to the electors; the Republicans pushed the argument for all, and more than all, that it was worth—without any regard to the problem of the relative efficiency in the long run of well-paid and ill-paid labour, or to the relation of wages to the cost of living—and "the campaign of 1888 was won on the 'pauper labour' argument."[1]

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[1] Patten, *Economic Basis of Protection* (first published in 1890), 2nd ed., p. 15.

[2] *Ibid.*, pp. 7–8.

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[1] Stanwood, ii. p. 256.

[2] Quoted in Stanwood, ii. p. 222. It is noteworthy that in 1884 the Democrats, like the Free Traders of fifty years before, asserted openly that "taxes collected at the custom house" must continue to be the chief source of Federal revenue.

The new Tariff Bill of the Republicans was introduced in April, 1890, by Mr. McKinley, the Chairman of the Committee on Ways and Means; it received the Presidential approval on October 1st, and came into force five days later. Its most novel feature was the extension of Protection to agriculture—a policy which was inspired largely by the desire on the part of the Republicans to allay the dissatisfaction of the farmers, who believed that they were being exploited in the interests of the manufacturers, and to detach them, if possible, from the Democratic and Free Trade party. Its economic defence was found in the growth of the imports of agricultural produce, which reached the value of $256,000,000 in 1889, and the growing competition of Canada. So the duty on barley was increased from 10 cents to 30 cents a bushel; on oats from 10 to 15 cents; on wheat from 20 to 25 cents; on potatoes from 15 to 25 cents; on hay from $2 to $4 a ton; whilst eggs and apples, hitherto free, were subjected to duties of 5 cents a dozen and 25 per cent. *ad valorem* per bushel respectively. The duty on tobacco suitable for cigar wrappers, which could be grown in the United States only in Connecticut and was largely imported from Sumatra, was increased from 75 cents to $2 a pound, "with the additional most important provision that if any portion, no matter how insignificant, of any bale of tobacco imported is suitable for wrapping, the whole should pay the rate of $2 a pound."[1] Additional increases were on flax and hemp, neither of which were grown in good qualities in the United States.[2] And finally, the duties on wool were raised considerably; the rate on clothing wool was advanced only from 10 to 11 cents a pound, and on combing wool only from 10 to 12 cents, but on carpet wool the change was much greater. This is wool of a coarse kind, not grown in the United States, but now made subject to a higher duty because it was believed that better qualities were imported as carpet wool, and therefore paid a smaller duty than they would otherwise do—though no satisfactory evidence of this was produced; an *ad valorem* rate, of from 32 per cent. to 50 per cent., was now imposed on carpet wool instead of the former specific rate, and represented in fact a substantial increase.[3]

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[1] Mayo-Smith and Seligman, p. 23.

Naturally the manufacturers of woollen goods of all kinds strongly resisted the concessions made to the growers of wool, and could be pacified only by more consideration for themselves; and, in fact, the schedules of woollens showed the most vigorous application of the protective policy. It is true that in the case of the cheapest kinds of woollen goods there was little, if any increase, because whilst the *ad valorem* part of the duty was slightly raised, the specific "compensating" part was commonly reduced; but on the better qualities the increase was large, and at the same time the rates were greatly complicated by new classifications and further applications of the principle of the sliding-scale.[1] To take only a few instances of an increase—the duty on ready-made clothing was raised from 40 cents a pound + 35 per cent. *ad valorem* to 49½ cents + 60 per cent., and on Brussels carpets from 30 cents the square yard + 30 per cent. *ad valorem* to 44 cents + 40 per cent., whilst in the case of dress goods the advance made them subject to a duty of nearly 100 per cent.[2] The same policy was pursued with other

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[1] Mayo-Smith and Seligman, p. 32.

[2] "It may be said without qualification that the purpose of the increase of duties on agricultural products was political, and that the object was accomplished. The farmers were taken into the Protection partnership" (Stanwood, ii. p. 266).

[3] Taussig, pp. 256-9.

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[1] The following table gives a simple illustration of this in the case of woollen cloths (Taussig, p. 260):—

1883.	1890.
(1) If worth 80 cents or less per lb., 35 cents per lb. + 35 per cent.	(1) If worth 30 cents or less per lb., 33 cents per lb. + 40 per cent.
(2) If worth more than 80 cents per lb., 35 cents per lb. + 40 per cent.	(2) If worth between 30 cents and 40 cents per lb., 38½ cents per lb. + 40 per cent.
	(3) If worth more than 40 cents per lb., 44 cents per lb. + 50 per cent.

For further illustrations see p. 234–5.

[2] Yet in spite of these high duties, the tariff on wool has greatly hampered the industry in the United States. "The effect of this duty is perceptible, not only upon the price of home-grown wool, which is enhanced by some considerable part of the duty, but also in its curtailment of importations of the most desirable varieties of Australian and South American fleeces. For this reason among others—and there are several others of importance—there has thus far been no serious

textiles; there were remissions of duties on the cheaper qualities of cotton, linen, and silk goods, and radical increases on all the better kinds. Some other advances, not on textiles, may also be conveniently noted here—on fine plate-glass from 40–45 per cent. to 60 per cent. *ad valorem*, and on cigars (to compensate the manufactures for the change in the tobacco duties) from $2.50 a pound + 25 per cent. to $4.50 + 25 per cent.

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In the case of iron and steel goods, which had once furnished the friends of Protection with their most effective arguments, the situation was altogether different. The American production of pig-iron and Bessemer steel rails exceeded the British in 1889 for the first time, and so did the output of coal. The American manufacturers were in control of the home market; they no longer feared foreign competition, and were quite willing to allow some reductions which probably would benefit only those consumers on the Eastern coast to whom transport by water from Europe was as cheap or cheaper than transport by rail from distant parts of the United States. The duty on steel rails was lowered to $13.44 a ton,[1] and there were decreases on the inferior qualities of boiler iron and steel ingots. But, on the other hand, the manufacturers in the East, especially

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attempts to develop an American export trade in woollen goods. The one possible exception to this rule is in the case of carpets" (S. N. D. North, in *Annals of the American Academy*, vol. xxiii. No. 1, January, 1904).

[1] "It left the duty still at a prohibitory rate" (Taussig, p. 272).

near the coast, could secure no remissions on pig-iron or iron ore, which they obtained largely from Cuba and Spain. On a number of other metal manufactures (brass, copper, lead) there were reductions. A concession was made to the shipping industry by extensive grants of drawbacks on all materials "which may be necessary for the construction and equipment of vessels built in the United States for foreign account and ownership, or for the purpose of being employed in the foreign trade, including the trade between the Atlantic and Pacific ports of the United States.[1] The one great change was in the case of tin plates, which were scarcely manufactured at all in the United States, but were imported in enormous quantities (with an average value of 20 million dollars in the years 1888–90), owing in part to the growth of the canning industry. Since 1873 attempts had been made to develop the manufacture in America, but without success, for the competition of South Wales was too strong. A determined effort was now made by increasing the duty from 1 cent to $2\frac{1}{5}$ cents a pound (about 70 per cent. *ad valorem*), with the proviso that after October, 1897, tin plates should be admitted free unless in any one year the production of tin plates in the United States should equal "one-third the amount of such plates imported and entered for consumption during any fiscal year after the passage of this Act." The idea seems to have been that unless there was evident indication, by the end of six years, that the new industry which it was proposed to try to create had really established itself, the attempt should be given up; the proviso was a concession to the consumers of tin plates, who were strongly opposed to the proposed increase of duty, and anticipated serious difficulties for the various canning industries. There can be no question that the higher protection did enable the manufacture to get a start and obtain a firm footing; in the four years 1887–90 the average value of the imports of tin plates from Great Britain into the United States was £4,279,000, and the quantity manufactured there practically nil; in the four years 1898–1901 the average value of imports from Great Britain was only £807,000, and the average production in the United States was 347,000 tons.[1]

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[1] Section 8.

The most revolutionary change made by the new Act had reference to sugar, on which the duty hitherto in force varied from 1⅛ cents to 3½ cents per pound—a fairly high rate. The revenue from sugar was very large; in the five years 1886–90 it averaged about 53 million dollars a year. There had been a number of suggestions for the reduction of duty, and there was even a Bill introduced by the Republicans of the Senate, prior to the election of 1888, which proposed a remission of about 50 per cent. The McKinley

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[1] *Board of Trade Blue Book on British and Foreign Trade and Industry*, p. 132.

Tariff abolished the duty on raw sugar altogether, but made refined sugar subject to a rate of ½ cent per pound. But in order to help the producers of sugar in the United States, chiefly in Louisiana, the Federal Government undertook to pay a bounty amounting to 2 cents per pound on the best qualities, for the fourteen years to July, 1905. At the same time a small surtax was imposed on all bounty-fed sugar coming from other countries. From the Treasury's standpoint the effect of this change was to reduce the customs revenue from sugar from fifty-four million dollars in 1890 to seventy-seven thousand dollars in 1892, whilst at the same time the amount to be paid in bounties was over seven million dollars in 1892, and over twelve million in 1894.

One other characteristic of the McKinley Act should be noticed, and that is the use which it made of detailed sliding scales with minimum values, instead of simple *ad valorem* duties. Illustrations of the system have already been given from time to time; its further application greatly complicated the Tariff, as the following example shows. The Act of 1883 contented itself with the simple statement that "penknives, pocketknives of all kinds, and razors shall pay 50 per cent. *ad valorem*," but in the Act of 1890 that direction had grown into the following elaborate statement as to the duties to be levied: "Penknives or pocketknives of all kinds, or parts thereof, and erasers, or parts thereof, wholly or partly manufactured, valued at not more than fifty cents per dozen, twelve cents per dozen; valued at more than fifty cents per dozen and not exceeding one dollar and fifty cents per dozen, fifty cents per dozen; valued at more than one dollar and fifty cents per dozen and not exceeding three dollars per dozen, one dollar per dozen; valued at more than three dollars per dozen, two dollars per dozen; and in addition thereto on all the above, fifty per centum *ad valorem.* Razors and razor blades, finished or unfinished, valued at less than four dollars per dozen, one dollar and seventy-five cents per dozen; and in addition thereto on all the above razors and razor blades, thirty per centum *ad valorem.*"[1] Not only does this greatly increase the difficulty of customs administration, but it offers a very strong temptation to under-valuation on the part of importers.

The complications of the tariff, and some defects in the existing organisation, rendered a rearrangement of the customs system desirable, and the task was accomplished by the Customs Adminis-

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[1] The following table shows the effect of this change in the amount of the duty (Worthington Ford, in *Political Science Quarterly*, vol. xiii. No. 2. p. 283). :—

	Actual *ad val.* duty.	
	1883 per cent.	1890 per cent.
Penknives, etc., valued at not more that 50 cents per doz.	50	74·06
,, ,, valued over 50 cents. and not exceeding $1.50 per doz.	50	96·17
,, ,, valued over $1.50 and not exceeding $3 per doz.	50	94·74
,, ,, valued over $3	50	86·95

trative Act of June, 1890, which established the system still in force. Under that Act all goods imported must be accompanied by an invoice containing a declaration by the purchaser or manufacturer with "a full statement of the time when, the place where, and the person from whom the purchase was made, and the actual cost thereof and of all charges thereon"; and such declaration must have been produced to, and countersigned by, the United States consul or commercial agent at the place where the goods were purchased or manufactured. The invoice must be sworn to by the importer; the goods are then valued by an "appraiser," and if the duty is *ad valorem* and the valuation by the appraiser exceeds the valuation on the invoice, double duty is levied on the difference. Appeal lies to a general appraiser, then to Boards of General Appraisers, and then to the Federal Courts.

This elaborate machinery is almost inseparable from any system of *ad valorem* duties, and consequently most nations have preferred the simpler method of specific duties. The main advantages of *ad valorem* duties are that the tax always bears the same relation to the value of the commodity on which it is imposed, and is perfectly intelligible even to the non-expert; the effect of specific duties, on the contrary, can only be determined by a trade specialist, and unless they are frequently changed they are apt to become much heavier or much lighter than was intended at the time of their imposition—a striking illustration of this from the early history of the German Zollverein has already been given.[1] To prevent such occurrences the tariff must be frequently readjusted, but this involves much labour and a certain amount of uncertainty to foreign traders.[2] Moreover, unless the tariff is extremely detailed (as most continental tariffs are) it is impossible to keep the specific duties from weighing more heavily on the cheaper than on the better qualities of goods.[3] These considerations, as we have seen, induced an American Congressional committee in the thirties to declare strongly in favour of the *ad valorem* system, and, after various changes, the United States seems definitely to have decided to use *ad valorem* duties extensively. Yet the fact that most protective nations have not imitated the United States in this respect suggests that there are some very strong objections to its policy. The machinery for collection has to be much more elaborate than when specific rates are employed —at every port, however small, there must be a (more or less) competent appraiser. Secondly, it is not easy to secure that the valuations at the various ports are uniform; complaints on this point were frequent in the United States at one time, and other countries which use the *ad valorem* method seem to have the same experi-

[1] See p. 6.

[2] Most foreign tariffs, however, are for long terms of years.

[3] An instance is the single British tax on tea, which is the same for all qualities.

ence. Arrangements can, it is true, be made for appeals, but these usually mean much trouble to the importers. Thirdly, the temptation to undervaluation is strong, and fraudulent declarations are encouraged; the elaborate precautions taken and penalties provided by the Customs Administrative Act in the United States only show how deep-seated this evil may become. On the whole, then, it appears clear that, balancing advantages and disadvantages, specific duties are the most desirable form of duty, and the example of the United States will probably never be widely followed.[1]

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[1] For an account of another most important part of the McKinley Tariff Act—the clauses relating to Reciprocity—see Chapter VIII.

CHAPTER VII

THE WILSON AND DINGLEY TARIFFS

The passage of the McKinley Tariff Act was followed by an immediate and complete reaction. A month after it came into force the election for Congress took place, and resulted in a tremendous defeat for the Republican party. The reaction continued, and the Presidential campaign of November, 1892, ended in the return of the Democratic candidate, Cleveland, who represented the anti-protectionist policy. The Western States went almost solidly Democratic; and the new "farmer's party," the Populists, also detached many votes from the Republicans. The Democrats even secured a small majority in the Senate, and so for the first time since the period before the Civil War, they had complete control of the Federal Government. The causes of the change in public opinion are not very clear; the new Tariff had not been sufficiently long in force for any definite opinion to be formed as to its effects; but no one could allege that the issue had not been definitely set before the country. The Democrats in their platform for the Presidential election had declared that it was "a fundamental principle of the Democratic party that the Federal Government has no power to impose and collect tariff duties, except for revenue purposes only," and denied that there had been any increase of prosperity under the McKinley Tariff. Their candidate himself was more moderate; in his letter of acceptance of the party nomination, Cleveland wrote: "Reform is still our purpose. Though we oppose the theory that tariff laws may be passed having for their object the granting of discriminating and unfair governmental aid to private ventures, we wage no exterminating war against any American interests. We believe a readjustment can be accomplished, in accordance with the principles we profess, without disaster or demolition. We believe that the advantages of freer raw material should be accorded to our manufacturers, and we contemplate a fair and careful distribution of necessary tariff burdens rather than the precipitation of Free Trade." The Republicans in their turn asserted that "the prosperous condition of our country is largely due to the wise revenue legislation of the Republican Congress," and claimed that the fall in the price of manufactured commodities was in fact due to the tariff. The new President considered his large majority as a mandate of tariff reform, but the hopes which he had formed were doomed to disappointment. His task was complicated by two circumstances; one being the small and uncertain Democratic majority in the Senate, and the other the silver question. The problem which the last presents lies outside our subject; it is necessary here only to state that the Republicans had yielded in 1890 to the demand for the freer coinage of silver, and that the excessive issues of silver currency under the Silver Purchase Act of that year had produced a rapid fall in prices, and a good deal of commercial confusion. President Cleveland and his advisers thought themselves compelled to propose the repeal of the Purchase Act; they carried it after a hard struggle, but in so doing they threw confusion into the ranks of their own party, which contained a strong section in favour of "free silver." These difficulties and others weakened the Government seriously, and though it had comparatively little difficulty in carrying its scheme for tariff reform (subsequently named the Wilson Tariff, after the Chairman of the Committee of Ways and Means) in the lower House, it was not able to overrule the sweeping amendments made by the Senate[1] —amendments which gravely modified the proposals, and in some cases made them of no effect.

Nevertheless the Wilson Tariff did make considerable changes. One of the most important was in the treatment of woollens, which had been the critical part of the McKinley Act; raw wool was henceforth to be admitted free, and the elaborate duties on woollen manufactures were swept away and replaced by the simple arrangement of *ad valorem* duties of 50 per cent. on the best goods, 40 per cent. on dress materials, and 25 per cent. on blankets and flannels. Naturally the specific duties, compensatory for the duty on raw wool, were abolished, but though the manufacturers were caused some trouble by the change, it cannot be said that they were treated unfairly. As regards other textiles, there were large reductions on the cheapest kinds of cotton goods, and smaller ones on the finer qualities; and here again the tariff was greatly simplified by the abolition of the mixed specific and *ad valorem* duties. There were small reductions also on silks and linens. The President had intended that all raw materials should be admitted free, and had carried the House of Representatives with him; the Senate, however, could not be induced to go so far. The chief illustrations of this were furnished by iron ore and coal. The House of Representatives had abolished the duty on both of these commodities; the Senate was content to reduce the duty in each case from 75 cents to 40 cents a ton. The duty on pig-iron was lowered from $6.72 to $4 a ton, on steel rails from $13.44 to $7.84 a ton, and even on tin plates from $2\frac{2}{5}$ cents to $1\frac{1}{5}$ cents per pound. The general policy was then to reduce taxation on all commodities which could in any way be regarded as raw materials, and to substitute *ad valorem* for specific duties as widely as possible.

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[1] As sent back by the Senate to the House of Representatives, the Bill contained 684 amendments (Stanwood, ii. p. 340).

One other serious change was in the case of sugar. The clauses affecting that commodity in the McKinley Tariff had caused very considerable dissatisfaction: for one thing, the financial results had been somewhat unsatisfactory, and for another, it was widely believed that the duty on refined sugar and the bounties were largely in the interests of the Sugar Trust—one of the earliest of those organisations which now play so great a part in American industrial life. The Democrats now proposed to admit refined sugar as well as raw sugar free, and to abolish the bounty system, but the Senate made many amendments admittedly in the interest, and under the influence, of the Sugar Trust. An *ad valorem* duty of 40 per cent. was imposed on raw sugar; refined sugar was made subject to a rate of ⅛ per cent., and the surtax on bounty-fed sugar, imported into the United States, was retained. The House of Representatives was unable to overrule the Senate, and "on the whole, the refining monopoly, while it lost something, came out of the struggle victorious, and was left in little less secure control over the trade after the Act of 1894 than under the Act of 1890."[1]

Altogether the new tariff accomplished little; none of the high hopes which the Democrats had formed after the Presidential election were realised. The President himself was grievously disappointed; in order to save something of his policy, he allowed the Act to pass, but he would not give it his signature; it became law merely because he took no action in the time required by the Constitution. The weakness of the Democrats, the confusion in the party, the disruption caused by the silver question, the conflict between the President and the Senate, and the Treasury difficulties with which the Cleveland Administration failed to cope, brought about a reaction as sharp as that of 1890–2, and again placed the Protectionists in power. The Democrats had hoped to establish an income tax, to meet the deficiency resulting from the reduction of duties and to enable them to continue the removal of the customs restrictions, but the Supreme Court now reversed its decision of the Civil War period, and decided the income tax to be unconstitutional.

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[1] Taussig, pp. 313–14.

But at the election of 1896, the country was not concerned mainly with the question of Protection or Free Trade. The advocates of free silver had grown in force astonishingly, and had completely captured the Democratic party machine; in their election platform the Democrats declared for "the free and unlimited coinage of both silver and gold at the present legal ratio of 16 to 1, without waiting for the aid or consent of any other nation,"[1] and added that "until the money question is settled we are opposed to any agitation for further changes in our tariff laws, except such as are necessary to meet the deficit in revenue caused by the adverse decision of the Supreme Court on the income tax." To prevent all misconception as to their policy, the Democrats chose as their candidate the foremost platform representative of free silver, and the Populist party also gave him their support. The Republicans had intended to fight the election mainly on the tariff issue, and had therefore chosen McKinley as their representative. But they were compelled by force of circumstances to drop that question for the time, and to go to the electors chiefly as the opponents of the revolutionary monetary proposals of the Democrats. And there can be no question that this was the chief cause of their overwhelming victory; it is true that they had announced their intention to amend the tariff, but "the tariff gave way to the free coinage issue, and the election ultimately turned upon that almost exclusively."[1] The Democrats were broken up, large numbers of the party in the Eastern States either abstained from taking part in the election or voted for McKinley. The Republican candidate was elected by a very considerable majority, and the Republicans found themselves supreme in the House of Representatives, and masters of the Senate by a few votes. The new President could scarcely claim that the nation had given a definite judgment on the tariff problem, and, moreover, he owed his election in part to the votes of those Democrats who could not support the extreme views represented by his opponent. But nevertheless the President and his advisers made up their minds that they were justified in carrying out tariff changes immediately. The country had experienced a considerable commercial crisis in 1893 and the following years, and the Treasury had to meet a large deficit. The facts that the crisis had commenced in 1893, whilst the McKinley Tariff was still in force, and that the deficit was largest in that year and had been growing smaller ever since,[1] had no weight for them; and the President now invited Congress to provide adequately for the wants of the Treasury, and suggested that the duties imposed for this purpose "should be so levied upon foreign products as to preserve the home market so far as possible to our own producers; to revive and increase manufactures; to relieve and encourage agriculture; to increase our domestic and foreign commerce; to aid and develop mining and building; and to render to labour in every field of useful occupation the liberal wages and adequate rewards to which skill and industry are justly entitled." The result was the so-called Dingley Act, which became law in July, 1897, after a rapid progress through both Houses of Congress. It imposed duties higher than under any preceding tariff.

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[1] A reference to the argument that this would be practicable only as the result of an international agreement.

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[1] Stanwood, ii. p. 376.

The most important feature of the new tariff was the return to the duties on certain raw materials, especially wool. The import of that commodity had tripled between 1893 and 1896, and the supply of woollen manufactures from abroad had also doubled. It was therefore resolved to reimpose on clothing and combing wool the rates of the tariff of 1890, and on carpet wool graded duties higher than in any other period. The manufacturers were strongly opposed to the change, but political considerations and the desire to do something to counteract the effect of the appeal made by the silver party to the farmers, prevailed with the Executive. Largely for the same reason, a duty of 15 per cent. *ad valorem* was imposed on hides, which had been free since 1872; and the rates of 1890 on flax were also restored.

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[1] In the financial year 1893–4, the deffcit was 70 million dollars; in 1894–5, 43 million; in 1895–6, 25 million; in 1896–7, 18 million.

In regard to textiles, the restoration of the wool duty was followed inevitably by an increase of the protection given to woollen manufactures, and the old principle of a combination of specific compensating duties and *ad valorem* protective duties was again applied, with its great administrative complications and difficulties.[1] On the chief class of woollens imported the protective *ad valorem* rate was increased, so that it had advanced from 25 per cent. in 1875 to 55 per cent. in 1897. On cottons the duty was somewhat lower than in

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[1] "It will be observed that under the Act of 1897 on dress goods the customs officers must ascertain first, whether the warp consists 'wholly of cotton or other vegetable material'; if so, whether the goods are worth more than 7 cents a yard; if not, whether they are worth more or less than 70 cents a lb. All these circumstances affect the rate of duty, and obviously increase the difficulties of administration and the opportunities for evasion" (Taussig, p. 334).

1890, but a good deal higher than in 1894, and here again the combined specific and *ad valorem* duties were adopted. The same complicated method was applied to silks and linens, with a marked increase in the amount of the duties. Raw hides were taxed for the first time. There were advances also in the case of china, earthenware, and glass, by a return to the duties of 1890. In the case of metals, there was little change so far as iron ore, pig-iron, steel rails, and copper were concerned; but the duty on coal was raised from 40 cents to 67 cents a ton (which was 8 cents less than in 1890). The rates on certain manufactures of iron and steel, such as cutlery, and on lead and lead ore were restored to the points of the McKinley Tariff. The duty on tin-plate was increased only slightly, from $1\frac{1}{5}$ cents to $1\frac{1}{2}$ cents. In the sugar duties the *ad valorem* duty of 40 per cent. imposed by the Act of 1894 on raw sugar was now replaced by a specific duty of about double that amount; there was also an increase, in fact, on refined sugar, though the Sugar Trust did not secure anything like the advantage for which they had striven.

From the administrative point of view, the new tariff was even more complicated than its predecessors. The elaborate clauses concerning knives, penknives, and razors in the McKinley Tariff have already been quoted; the clause referring to the same commodities in the Act of 1897 will serve to show how the complication had increased:—

"Penknives or pocketknives, clasp knives, pruning knives, and budding knives of all kinds, or parts thereof, and erasers or manicure knives, or parts thereof, wholly or partly manufactured, valued at not more than forty cents per dozen, forty per centum *ad valorem;* valued at more than forty cents per dozen and not exceeding fifty cents per dozen, one cent per piece and forty per centum *ad valorem;* valued at more than fifty cents per dozen and not exceeding one dollar and twenty-five cents per dozen, five cents per piece and forty per centum *ad valorem;* valued at more than one dollar and twenty-five cents. per dozen and not exceeding three dollars per dozen, ten cents. per piece and forty per centum *ad valorem;* valued at more than three dollars per dozen, twenty cents per piece and forty per centum *ad valorem; Provided,* That blades, handles, or other parts of either or any of the foregoing articles, imported in any other manner than assembled in finished knives or erasers, shall be subject to no less rate of duty than herein provided for penknives, pocketknives, clasp knives, pruning knives, manicure knives, and erasers valued at more than fifty cents and not more than one dollar and fifty cents per dozen. Razors and razor blades, finished or unfinished, valued at less than one dollar and fifty cents per dozen, fifty cents per dozen and fifteen per centum *ad valorem;* valued at one dollar and fifty cents per dozen and less than three dollars per dozen, one dollar per dozen and fifteen per centum *ad valorem;* valued at three dollars per dozen or more, one dollar and seventy-five cents per dozen and twenty per centum *ad valorem.* Scissors and shears, and blades for the same, finished or unfinished, valued at not more than fifty cents per dozen, fifteen cents per dozen and fifteen per centum *ad valorem;* valued at more than fifty cents and not more than one dollar and seventy-five cents per dozen, fifty cents per dozen and fifteen per centum *ad valorem;* valued at more than one dollar and seventy-five cents per dozen, seventy-five cents per dozen and twenty-five per centum *ad valorem.*"[1] As another illustration, the duties on silk piece goods may be quoted. They are as follows:—[2]

SILK PIECE GOODS.	per lb.
(1) Containing 20 per cent. or less in weight of silk, if in the gum	$0.50
If dyed in the piece	.60
(2) Containing 20 to 30 per cent. in weight of silk, if in the gum	.65
If dyed in the piece	.80
(3) Containing 30 to 45 per cent. in weight of silk, if in the gum	.90
If dyed in the piece	1.10
(4) Containing 30 per cent. or less in weight of silk, if dyed in the thread or yarn, black	.75
Other colour	.90
(5) Containing 30 to 45 per cent. in weight of silk, if dyed in the thread or yarn, black	1.10
Other colour	1.30

It should be added that the McKinley Tariff inaugurated an elaborate policy of drawbacks, by a sweeping clause which provided that "where imported materials on which duties have been paid, are used in the manufacture of articles manufactured or produced in the United States, there shall be allowed on the exportation of such articles a drawback equal in amount to the duties paid on the materials used, less 1 per cent. of such duties." The Dingley Tariff has continued the system, but the "conditions and regulations are cumbersome and often difficult to comply with,"[1] and the system admittedly hampers the manufacturers for export.

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[1] Quoted by Ford in *Political Science Quarterly,* vol. xiii. No. 2, pp. 284–5.

[2] Taussig, p. 339.

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[1] S. N. D. North, in *Annals of the American Academy,* January, 1904, p. 7

CHAPTER VIII

RECIPROCITY UNDER THE AMERICAN TARIFF—CONCLUSION

It will have been noticed that hitherto little has been said of the international commercial relations of the United States, and no reference has been made to any treaties similar to those which have played so important a part in continental Europe during the last half-century. The explanation of this fact is that until quite recently the United States have stood almost altogether aloof from such a treaty system, and the slight attempts made from time to time to enter it have been ill-fated. It is true that various agreements made by the United States have contained the "most favoured nation" clause, but the effect of that provision is much more limited than in European treaties, for it has been construed by American legists to apply merely to privileges voluntarily granted by the United States to any country, and not to anything given in return for reciprocal advantages. That is to say, that if the United States, in return for certain remissions of duty on American goods made by Germany, give corresponding reductions on certain of their imports from Germany, they are not bound to extend the same reductions to any third nation with whom they may have a treaty containing the "most favoured nation" clause.[1] It is unnecessary to point out that this interpretation practically destroys the value of the clause in question, since the privileges granted by the United States without return are not likely to be numerous or important; but it simplifies the making of reciprocity treaties, since it enables the Federal Government to consider simply the effect of the treaty on the trade between the two contracting countries — it escapes the complications arising under the European method.

The earliest attempts at reciprocity were not very satisfactory; the proposal for a treaty with the Zollverein in 1844 was rejected by the Senate, and it was not until ten years later that a commercial agreement of any kind was actually made. That was with Great Britain for Canada, and it remained in force for twelve years; it arranged for the admission of a large number of agricultural products from either country into the other free of duty; it also gave certain fishing privileges to American seamen, and provided for mutual freedom of transport. It seems to be agreed that on the whole Canada profited rather more than the United States, at least in the latter part of the treaty period, and the United States had by 1866 become completely dissatisfied. One cause of this was certainly the fact that the Canadian provincial governments increased the duties on manufactured goods to make up for the financial losses sustained by them owing to the reductions on raw materials. In 1866, partly because of this, and partly for political reasons (notably the sympathy of Canada for the Confederates), the United States renounced the treaty. A number of other contemplated agreements with other countries failed. The negotiations with Hawaii in 1855 were abandoned; treaties prepared by the Executive with Mexico in 1859 and 1883, with Hawaii in 1867, and with Canada in 1874, were rejected by the Senate, and arrangements made in 1884 with Spain, for Cuba and Porto Rico, and with Dominica were abandoned by the Executive. One treaty alone was made—with Hawaii in 1875, but the adoption of that in the United States was determined rather by political than economic considerations; it was a step on the road to annexation.

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[1] Mayo-Smith and Seligman, pp. 34–5.

The first definite and general provision for reciprocity was made by the McKinley Act of 1890, at the instigation of Blaine, the Secretary of State, who had been the moving spirit in the summoning of the Pan-American Congress which met at Washington in October, 1889. Eighteen countries, including the United States, were represented there, and considerable attention was given to the suggestions for an American Customs Union. It was agreed that a union for customs purposes on the lines of the German Zollverein was altogether impossible for many reasons—economic and political; and absolute free trade between the various countries was held to be, for the time, out of the question, since most of them were largely dependent for their revenues on the customs duties. The committee which reported on the proposals could only urge the making of separate treaties with reciprocal reductions of duty. Even this report did not secure unanimous support; the representatives of four countries voted against it, and Chili and Argentina especially urged that so long as the United States insisted on the maintenance of their high duties reciprocity was impossible.

But Blaine was not altogether discouraged, and he thought that commercial agreements, which might extend the United States markets in South America, might be obtained in another way.[1] He put forward his idea when the McKinley Tariff was under discussion, and a clause in that Act, inserted in the Senate, provided that the President should be authorised to impose certain duties on sugar, molasses, coffee, tea, and hides (which were duty free) coming from countries which levied on agricultural or other produce of the United States duties to an extent, in his judgment, "reciprocally unequal and unreasonable." Taussig has pointed out that this method offers decided economic advantages over that commonly pursued, namely, "the simple remission of duties to a favoured country, duties remaining on goods coming from countries not favoured. Such a remission is likely not to redound to the advantage of the domestic consumer. Unless the favoured country can easily supply the whole market, or other countries are quickly admitted to the lower duties, prices are not affected, and the foreign producer reaps the whole benefit of the remission."[1] Under this clause treaties were made with a large number of the Central American States — Brazil, Dominica, Salvador, Nicaragua, Honduras, Guatemala, with Spain for Cuba and Porto Rico, and with Great Britain for most of the West Indian Islands and British Guiana. In most of these cases the United States got a very considerable return for the mere promise to retain the enumerated articles on their free list. Thus Brazil admitted wheat, flour, pork, agricultural and mining machinery, coal, and railway material free, and reduced the duties on a number of other commodities. Cuba made thirty-nine classes of articles free, and gave a reduction of 50 per cent. on seventeen classes and 25 per cent. on fourteen classes.[2] The fact that Germany and Austria-Hungary were largely interested in the export of sugar enabled the American Government to make terms with those countries also. Germany abandoned the prohibition in force for some years of American meat, and gave the United States the benefit of the conventional tariff on agricultural products; from Austria-Hungary they secured "most favoured nation" treatment.[1]

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[1] "I do not doubt that in many respects the Tariff Bill pending in the Senate is a just measure, and that most of its provision are in accordance with the wise policy of Protection. But there is not a section or line in the entire Bill that will open the market for another bushel of wheat or another barrel of pork" (Blaine, in letter quoted by Stanwood, ii. 278).

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[1] Taussig, p. 279.

[2] Osborne, p. 64.

These arrangements did not continue long enough to enable any definite opinion to be formed as to their effect on trade, since the reimposition of the customs duties on sugar by the Wilson Tariff of 1894 practically destroyed the system, which was dependent on the general freedom of that commodity. Fresh provision for reciprocity was made by two clauses in the Dingley Act of 1897, but not on the lines of 1890. Under section 3 of that Act, the President was authorised, in return for concessions by other countries, to reduce by a definite amount the duties on certain articles specified in the clause. The list was a curious one; it included only argols, brandies, champagne, and other sparkling wines, still wines, and vermouth, pictures, and statuary. Section 4 provided that the President might make treaties (which, however, needed the approval of Congress) with reductions on duties up to 20 per cent. on any or every article; but such treaties must be made within two years after the passing of the Act. This latter clause has been practically inoperative; some eleven treaties were negotiated under it, mainly affecting Central or South American States and the West Indies, but they all fell through owing to the impossibility of carrying them through the Senate. Action under section 3 could be taken merely by Presidential proclamation without any necessity for Congressional approval, and four such treaties have been made—with France in 1898, with Germany, Italy, and Portugal in 1900.[1] In return for the very small concessions indicated above, the United States secured from France the minimum tariff rates on a large number of agricultural products, from Germany the full conventional tariff, from Italy low rates on machinery and some raw materials, and from Portugal "most favoured nation" treatment, with fixed rates for agricultural products and machinery generally. It is difficult, if not impossible, to estimate the results of these treaties; and the very small list of articles on which reductions may be made by Presidential proclamation is a considerable obstacle to any extension of the system at present.

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[1] The penal duties provided for by the clause in the Act of 1890 were actually applied against Haiti, Venezuela, and Colombia.

Recent events in the United States have drawn attention away from the tariff. The last Presidential election was fought mainly on the question of the Spanish War and the new foreign policy of the American Commonwealth; and the Democrats were further handicapped by their adherence to the silver policy, which had caused them disaster four years earlier. The Republican party still proclaims the maintenance of the tariff to be one of its chief objects, but it is willing to extend the system of reciprocity.

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[1] Osborne, p. 69.

In his message to Congress in 1901, President Roosevelt indicated clearly the policy which he himself was prepared to follow. He wrote: "Reciprocity must be treated as the handmaiden of Protection. Our first duty is to see that the protection granted by the tariff in every case where it is needed is maintained, and that reciprocity be sought for so far as it can safely be done without injury to our home industries. Just how far this is must be determined according to the individual case, remembering always that every application of our tariff policy to meet our shifting national needs must be conditioned upon the cardinal fact that the duties must never be reduced below the point that will cover the difference between the labour cost here and abroad. The well-being of the wage-worker is a prime consideration of our entire policy of economic legislation." The Democrats on their side have been inclined to avoid the direct tariff issue, and to turn their hostility against the trusts. Incidentally, this enables them to attack the protective system, which, they claim, fosters the trusts, and by eliminating a certain amount of competition renders it easier for those organisations to secure a monopoly in the home market, and exploit the consumer.[1] Some of the Republicans at least, including the President himself, share this hostility to the trusts, but believe that their evil effects can be removed without tampering with the tariff. They claim that much of the astonishingly rapid progress of the United States in the last few years in manufactures[1] is due to the steady adherence to Protection, and they argue that that system does not necessarily, by giving the manufacturers a practical monopoly, tend to check improvements in the methods of production, but rather that it encourages them by offering the producers greater security and inviting them to the conquest of the home market.[2] And the

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[1] Cf. Beardsley, "The Tariff and the Trusts," in *Quarterly Journal of Economics*, May, 1901.

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[1] The Census estimate of the value of the manufactured products of the United States was 9,372 million dollars in 1890 and 13,014 million in 1900.

[2] "In fact, history shows that either result may ensue. It would seem, for instance, that in France, under the system of absolute prohibition against competing imports which prevailed throughout the first half of this century—in fact, up to the great commercial treaty of 1860—not a few manufacturers failed to make use of proved and familiar processes, and were inferior to British rivals. On the other hand, there were industries in France itself which had reached out into foreign markets, thus giving conclusive proof of not being behind the times. In the United States it would doubtless be possible to find examples of the former sort: a benumbing influence has sometimes been felt. But these are exceptions. As a rule, if American manufacturers have been unable to meet foreign competition, it has not been because of inert routine. . . . In the United States the Free Trader is shown by economic history to be in the wrong on this particular point: if protected industries have continued to need protection, as so often they have, the explanation is not to be found in the retention of antiquated processes. So far as the question of economic method is concerned, here again it is clear no abstract reasoning can suffice: the history of each people and the facts of each case must be investigated, and generalisation from *a priori* reasoning must be shunned" (Taussig, in "Iron Industry in the United States," in the *Quarterly Journal of Economics*, August, 1900, pp. 496–7).

Americans can claim with justice that they show no signs of any enervating influence exercised upon them by Protection; in the new Schools of Commerce their Universities have preceded the British Universities in their response to new national needs; in the conduct of business their manufacturers have shown extraordinary energy and ability; and the policy of taking care of the home market and concentrating attention upon that, in the assurance that foreign trade will then take care of itself, has been in their case most successful. It is impossible to estimate how far this development has been influenced by the economic policy which on the whole has been so consistently followed; it may fairly be assumed, however, that given the peculiar character of their people and the vast and varied resources of what is not a country but a continent, the United States, once they entered upon the path of industrialism, were certain to advance with a rapidity over which tariffs, whatever their nature, could exercise comparatively little control. But the time now seems to have arrived when Protection has accomplished its work; and if the principle formulated in the President's message already quoted be followed—if Protection is only to be given to industries in which the cost of production is greater in the United States than in other countries—then there must be considerable reductions in the tariff. For the cost of production of most iron and steel goods and of the cheap kinds of cotton goods (to mention only a few conspicuous instances) is now certainly not higher in the United States than elsewhere. And reciprocity treaties, which the President advocates, as did his predecessor, also mean the lowering of tariff walls. But the most effective popular argument for the withdrawal of a certain amount of industrial protection is the rise of the trusts. These combinations are a necessary outcome of known economic laws and of the special conditions of modern industry; but without attempting to fight the inevitable, one may fairly recognise that their growth is aided by restrictive tariffs on foreign imports—since one of their chief aims is the elimination of competition and the consequent control of prices.[1] And it may be safely asserted that the highly protective policy of the United States under the Dingley Tariff does give the trusts opportunities better than any they enjoy in less protectionist states to obtain virtual monopolies, which enable them to force prices up to the highest rate the market will bear. It is to the growing feeling against what are believed to be abuses of their power that probably we must chiefly look for any considerable movement in the United States against the policy now in force.

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[1] The economy of production on a large scale is no doubt a powerful stimulus to combination, but it may be doubted if this consideration alone would have produced the giant trusts of America.

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PART III

FRANCE

CHAPTER I

FRENCH COMMERCIAL POLICY FROM 1789 TO 1830

THE Revolution of 1789 first gave economic unity to France. Until that time internal commerce was hampered by innumerable tolls and feudal dues, by the right of the various provinces to impose customs duties against each other, by the prohibition of the movement of commodities, particularly foodstuffs, from one part of the country to another, and by the diversity of the provincial tariffs upon foreign products. The transit of goods through the country was so costly as to be almost impossible.[1] The Constituent Assembly swept away all these obstacles; in 1790 it abolished the internal tolls and the provincial tariffs, and it established one common and uniform tariff against foreign countries in 1791. The new duties were fairly moderate; they ranged from 5 to 15 per cent. (or in a few cases 20 per cent.) on manufactured articles, and admitted most raw materials free. It is true that there were a number of prohibitions of import, but very few were of any economic importance;[1] and the prohibition of exports, to any considerable extent, only came when war was inevitable, and could be justified as a war measure.

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[1] Levasseur, i. p. 34.

But this was not the whole of the economic reform made by the Constituent Assembly. It abolished such serfdom as still existed among the rural population, and arranged for the cessation of the remaining feudal dues; it reformed taxation by making all classes of the community liable; it suppressed the industrial privileges of the guilds, and threw all trades and professions open to everyone that cared to enter them; it made an end of trading privileges both at home and abroad;[2] and on the whole it gave France the opportunity of the fullest and freest development of her industrial and commercial resources.[3] But in 1792 war broke out, and gradually the tariff policy of France became more and more restrictive. All existing commercial treaties, especially the one made with Great Britain in 1786, were annulled, and the prohibition of the export of commodities was extended; and then the National Convention, recognising that Great Britain was its most dangerous foe, entered on the attempt to cripple her by destroying her foreign trade. In March, 1793, the entry into France of certain commodities coming chiefly from Great Britain was prohibited, and in October of the same year, as that measure did not suffice, the import, sale, and use of all commodities made or manufactured in the United Kingdom or in the British Empire was forbidden under extremely heavy penalties. Yet even this enactment fell very far short of attaining the desired end,[1] and the Directory found it necessary to go still further. It ordered that a large number of commodities, whatever their place of origin, should be *reputed* to be British produce, and should be liable to be seized as such wherever found. But this extreme measure also proved insufficient; certainly by 1802 the customs revenue had fallen to 42 million francs (of which 11 millions were swallowed up by the cost of collection), but an enormous smuggling trade had arisen, and the French Government, in spite of its efforts, could not prevent the constant influx of British goods.

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[1] Amé, i. p. 53.

[2] The privileges enjoyed by the Indian Company were abolished (Levasseur, i. 42).

[3] "Elle avait trouvé le cultivateur censitaire, corvéable, ou même en quelques lieux serf, la terre chargée de droits féodaux; elle fit l'un et l'autre libres. Elle avait trouvé l'industrie gênée par les maîtrises et jurandes, par la multiplicité des impôts indirects, par les privilèges; le commerce entravé par les compagnies privilégiées, par les barrières de douanes; elle supprima les obstacles et déblaya le carrière devant l'industrie et commerce. La loi du 2–17 Mars 1790 émancipa l'industrie; celle du 7 Janvier 1791 constitua la propriété des inventeurs; celle du 2–15 Mars 1791 fonda sur un tarif modéré et uniforme les relations commerciales de la France avec l'étranger" (Levasseur, i. p. 46).

Under the Consulate, with Napoleon practically holding supreme power, the same policy was pursued, but its further application was delayed for a time by the negotiations which preceded the Treaty of Amiens, and the signature of that treaty in March, 1802. Though Napoleon declined to accept the contention of the British ministry that the signature of the treaty of peace restored the commercial relations of the two countries to their position under the agreement of 1786, he showed himself willing to make a fresh arrangement, and negotiations commenced, only to be brought to an abrupt end by the renewal of war in May, 1803. After Trafalgar, Napoleon, now become Emperor, began his supreme effort to break Great Britain's industrial and commercial power by isolating her from Continental Europe. The Berlin Decrees of November, 1806, with their sequel, the Milan Decrees of 1807 and 1808, prohibited all commercial relations between the countries under Napoleon's control (that is, the greater part of Europe) and Great Britain, announced that that country was in a state of blockade, and declared all vessels which had touched at British ports to be lawful prize. Meanwhile, the French tariffs were steadily rising; there had been a great increase in the duties on colonial produce in 1806, and in February and August, 1810, they were raised to an extraordinary height.[1] There were advances also on manufactured goods, but in spite of this and the prohibitions, the manufacturers were constantly asking for yet more protection.[2]

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[1] Amé, pp. 36-7.

The disorders of the early years of the Revolution had almost destroyed the good effect of the liberating work of the Constituent Assembly; up to 1799 trade and commerce in France rather declined than advanced. With the rise to power of Napoleon, who really cared for industrial progress, and with the re-establishment of internal order, conditions began to improve, but the Exhibitions of 1801 and 1802 showed that, despite this improvement, industry had not yet risen again to the level which it had reached before the Revolution.[1] But between 1802 and 1806 there was distinct, if gradual, progress under the fostering care of Chaptel, the Minister of the Interior; and at the Exhibition of 1806 the Government could point to the fairly prosperous condition of French manufactures, particularly of woollen and cotton goods. It could boast also of the increase of coal mining (though this was chiefly in the Belgian provinces), of the commencement of the steel works at Creusot, of the improvement of the highways and canals. The upward movement continued for some years after 1806, and the Napoleonic period may be said to have witnessed the commencement of the industrial revolution in France: it is true that machinery only came in very slowly, and in this respect France lagged far behind Great Britain, chiefly because fuel was dearer and manual labour cheaper than in the latter country; but, nevertheless, there were many improvements in industrial methods. The output of the smelting works increased from 1,058,000 metric cwt. in 1789 to 1,623,000 in 1812, whilst the production of bar-iron rose from 723,000 metric cwt. to 1,155,000 in the same period. There was a considerable growth in the textile industries, in spite of the way in which the cotton manufacturers were hampered by the blockade of raw materials; in the productions of the chemical and tanning industries under the stimulus of new scientific processes; in the manufacture of glass and porcelain; and in sugar refining, encouraged by high prices and bounties. Foreign trade increased up to 1806, but after that date, with the extension of the "continental system," it rapidly declined. The following table gives the movement of foreign trade in million francs for the whole period of Napoleon's Government of France:—[1]

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[1] Thus in 1806 the duty on sugar was 100 francs per 100 kilogs.; by the end of 1810 it was 400 francs. In the same period the duty on coffee rose from 150 to 400 francs; on cocoa from 200 to 1,000 francs.

[2] Amé, i. pp. 57, 59, and 61.

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[1] Levasseur, i. p. 455.

Year.	Import.	Export.	Total.
1799	253	300	553
1800	323	272	595
1801	415	305	720
1802	465	325	790
1803	430	347	777
1804	441	380	821
1805	492	375	867
1806	477	456	933
1807	393	376	769
1808	320	331	651
1809	288	332	620
1810	339	366	705
1811	299	328	627
1812	308	419	727
1813	251	354	605
1814	239	346	585

[1] Levasseur, i. p. 493.

But there was a reverse side to this. The industrial development was essentially artificial. It was the outcome, not so much of the enterprise of French manufacturers, as of the compulsion laid upon consumers to have recourse to them, and their undisturbed sway in the home market. Except in a few cases there was no considerable improvement in their methods, and "after being kept apart for a quarter of a century from all regular contact with the products of the British manufacturers, we found ourselves at the establishment of peace even further behind than before the war; whilst machinery had gradually developed in England, in France it had made very little progress."[1] Moreover, there was much over-speculation in France, followed by extensive monetary difficulties, and the bad harvest of 1811 made things worse. The result was a commercial crisis in the years 1811 to 1813. Napoleon recognised that his attempt to destroy the economic bases of Great Britain's power had failed, and that the "continental system" had resulted only in considerable disaster to the French ports. He tried, therefore, in 1813 to improve matters by granting licenses enabling certain goods needed for French manufactures, such as cotton, tobacco, lumber, to be brought in ships so licensed at a duty of only 50 per cent., on condition that the same ships took an outward cargo of French products.[2] But it was too late to save the situation; the commercial disorder and general collapse discredited Napoleon's statesmanship, as the disastrous Russian campaign destroyed his military reputation.

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[1] Amé, i. p. 67.

[2] "Pour cette année (1813) ne pouvant plus espérer la paix de la détresse de l'Angleterre, et n'ayant à l'attendre que des batailles qui

The Restoration Monarchy was called on to deal with an extremely difficult problem. The economic policy of Napoleon had brought into existence a small but powerful class of iron-masters and textile manufacturers, who were bent on maintaining their monopoly of the French market, and dreaded the threatened invasion of British goods. The landowners were anxious to keep up the high price of grain. In April, 1814, the Comte d'Artois, acting as Lieutenant-General of the realm, issued an edict greatly reducing the duties on coffee and sugar, and practically abolishing those on raw cotton. The cotton-spinners and merchants holding stocks of colonial produce were at once aroused, and the opponents of the new policy were able to carry all the manufacturers with them. In a petition to the King in 1814, the Chamber of Commerce of Rouen went so far as to declare that "prohibition is the outcome of political and social rights. From the manufacturer who has made use of all his financial resources in order to establish a factory, down to the workman who finds there the means of existence for himself and his family—

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allaient se livrer en Allemagne, voulant de plus rendre aux villes de Bordeaux, de Nantes, du Havre, de Marseilles, quelque activité commerciale, Napoléon avait accordé une quantité de licenses telle qu'on pouvait considérer comme presque rétabli le commerce avec l'Angleterre" (Thiers, quoted by Amé, i. p. 48).

all demand, with perfect reason, the right to be the sole source of supplies for home consumption."[1] Though inclined to give up the system of prohibition, and convinced that the economic progress of France could only be secured by allowing foreign competition,[2] the new Government was not able to resist the pressure. Absolute prohibition was maintained in a great many cases, and elsewhere high Protection was adopted, and the record of the economic policy of the Restoration Monarchy is simply the story of a Government attempting to hold the balance between the party which favoured commercial liberty and the various well-organised groups representing particular interests, and forced again and again to go much further in the direction of Protection than it desired. The Tariff Act of 1816 made it perfectly clear that for a very long time France would adhere to the commercial policy which she had adopted during the war.[3]

It would serve no useful purpose to describe the tariff legislation of the Restoration Monarchy in detail; it will suffice to give some illustrations of the manner in which the policy of Protection was carried out. To take the most conspicuous example: in 1814 it was estimated that iron from abroad could be delivered in France at from 30 to 40 per cent. below the French cost of production, and the Government, in order to help their own manufactures, proposed a specific duty on bar-iron of 15 francs (plus 10 per cent. = 16 francs 50 centimes) per 100 kilo., which was calculated to be about 50 per cent. *ad valorem.* The manufacturers were not satisfied—they desired prohibition—but they accepted the proposal, and in spite of the opposition of the seaports it was carried. The ministry intended it to be merely a temporary measure to offset the disadvantages under which the French iron-masters laboured, and to give them time to improve their works; and the duties, it was thought, should therefore be gradually reduced.[1] But by 1822 the invasion of British iron, produced by better methods than the Russian and Swedish products with which France had been supplied up to 1814, had greatly reduced prices, and the average had fallen from about 36 francs (duty free) per 100 kilo. in 1814 to 22–23 francs in 1822. The French manufacturers asserted that they still could not compete; and in 1822, in spite of the facts that the imports were falling and that the native industry had admittedly made much progress, the Government was compelled to increase the duty to 24 francs + $\frac{1}{10}$ – 26·4 francs per 100 kilo. The net result was a duty on foreign bar-iron of about 120 per cent. *ad valorem;* and a little later there was a slight further increase.[1] The imports of British iron fell from 1,463 tons in 1823 to 330 tons in 1825.[2] In 1820 there had been increases in the duties on steel and various kinds of steel goods; and in 1826 there were further advances on iron plates, cast-iron, and wire.

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[1] Quoted in Amé, i. pp. 68–9.

[2] Saint-Cricq, the Director-General of Customs and the real guide of the economic policy of the Restoration Monarchy, wrote : "Nous aurions moins de progrès à faire si une trop longue interruption dans nos relations commerciales n'eût constitué une prohibition à l'abri de laquelle on a pu négliger, sans danger, des moyens de perfectionnement qu'une heureuse rivalté n'aurait pas manqué de développer."

[3] The Napoleonic Wars exercised the same influence upon subsequent commercial policy in France as the Civil War in the United States. In both cases a system of high Protection was called into existence (though for different reasons) by war, and the interests to which it gave rise, and the manner in which people became accustomed to it by its long duration, secured its continuance in time of peace.

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[1] Brandt, p. 74.

Another, and even more important, example was furnished by the agricultural duties, to which the various Governments of France had always paid considerable attention. In spite of the advocacy of Turgot, it was not until the French Revolution that the free movement of grain from one part of France to another had been permitted.[3] Originally in 1814 it was proposed to prohibit the export of corn and allow its free import, but in September of that year, in order to prevent prices at home from falling too low because the producers were compelled to sell it within the French borders, the whole country was divided into three zones, and export was permitted when the prices there had fallen respectively to 23, 21, and 19 francs per hectolitre. In 1816 this principle was retained, but a small revenue duty on imports was established. By 1819, however, the reactionary royalist party was rising to power and seeking to establish itself on the agrarian interests; and it secured a reversal of the policy. The price of corn in that year was lower than it had been for some time, though not lower than the average for the period 1800–14;[1] the farmers feared the growing invasion of Russian grain, stimulated by the bounties given by the Government from November, 1816, to September, 1817, to meet the distress caused by the war of the Hundred Days and the second military occupation of France. So in 1819 the three-zone system was continued, but the importation of corn was made subject to a fixed duty, and a surtax varying according to the amount of the fall of home prices below a certain point; and finally the importation was to be prohibited altogether when the prices in the three zones fell to 20, 18, and 16 francs per hectolitre. But this did not satisfy the ultra-royalist agrarian party, and in 1821, finding themselves in a strong majority in the Chamber, they forced on the ministry a law which raised the limit at which the surtaxes on imports were to commence, divided France into four zones, and raised the points at which prohibition should commence to 24, 22, 20, 18 francs respectively.[2] Another concession was made to the agrarians in the case of wool. In 1814 the Government had proposed an export duty of 30 francs per 100 kilo. on the better kinds of washed wools, and 15 francs on the same qualities of unwashed wools—whilst imports were to be free, or rather subject only to a small weighing-duty; there was a sharp conflict between the manufacturers of woollens, desiring the free import and prohibited export of wool, and the wool growers, whose wishes were naturally to the contrary effect, but ultimately the Government plan was carried.[1] But by 1820 political conditions had changed; the export duties on the better kinds of wool were reduced, the prohibition hitherto continued of the export of the common kinds was abolished, and import duties were imposed of 60 and 20 francs per 100 kilo. on the finer kinds, and 15 and 5 francs on the commoner qualities. After 1819 imports declined, but in 1822 the duties on the cheaper wools were again increased; there were further advances, with a more detailed classification, made for all kinds in the next three years, and completed and confirmed in the Act of 1826.

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[1] Amé, i. pp. 145–7. [2] *Ibid.*, p. 149 n. [3] *Ibid.*, p. 105.

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[1] The average price for 1801–14 was 21·34 francs per hectolitre; in 1816 it was 28·31 francs, and in 1817, 36·16 francs. In 1818 it had fallen to 24·65 francs.

[2] Brandt, pp. 79–82.

These instances may suffice to show the general trend of commercial policy during the Restoration period—many other industries could tell the same story. It was a policy of Protection which originally was continued from the Napoleonic era in the interests of the manufacturers, but as the reactionary and agrarian party gained the upper hand in Parliament, the system was generalised,[2] and extended particularly to serve the purposes of agriculture, though some compensation was offered to manufacturers in the form of bounties on exports, and drawbacks. The culmination was reached in the Act of 1826, which completed the whole scheme of Protection, and seemed intended to make France almost entirely self-contained. But there are two other points in connection with French commercial policy after 1814 which should be noted. The first of these relates to sugar. Under the law of 1816 the colonial possessions of France enjoyed a considerable advantage for the sugar which they sent to her, and in 1819 they supplied 34 million kilo. out of a total of 39 millions imported. But they were still not content, and asked for a lower tax on colonial sugar and the prohibition of all other; the Government would not go so far, but gave the colonies a further preference of 5 to 10 per cent., according as the foreign sugars were or were not imported in French vessels. This almost destroyed the non-colonial imports, but as the colonies still complained, there were further increases on foreign sugars so as to raise the price of the whole supply in the home market, and by July, 1822, the colonial preference was 100 per cent. An incidental effect of the high prices was a stimulus to the beet sugar industry.[1]

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[1] Amé, i. pp. 76–9.

[2] One of the finest examples of care for native industries is furnished by the Commission of 1820, which asked for the prohibition of dye-stuffs made from woods, so that the French merchant marine might get the extra amount of freight involved in carrying the wood instead of extracts, which represented only 2 or 3 per cent. of the weight of the "matière première" (Amé, i. p. 120).

The other noteworthy point is the treaties made with the United States in 1822 and Great Britain in 1826. The Restoration Monarchy had commenced with the idea of developing the commercial relations of France with the other Powers by means of general treaties,[1] but in face of the strong protectionist movement this was felt to be impossible, and, in fact, there were sharp conflicts with Prussia, Russia, Sweden, and the Netherlands. In 1820 the United States replied to some French tariff changes by increasing the dues payable by French vessels; France replied in the same way, and also by granting bounties on the importation of cotton in French bottoms. The two parties then, in 1822, came to an agreement, which put their shipping on equal terms. The same arrangement was made with Great Britain in 1826, with results on the whole disadvantageous to the French carrying trade.[2]

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[1] Amé, i. p. 130.

The following table gives the movement of French foreign trade between 1816 and 1830. The figures for the earlier years are for the whole of the imports and exports; it was not until 1827 that the "special trade" (*i.e.* imports for French consumption and exports of French produce) was distinguished, and really it is only from that year that there are any very reliable statistics. The figures are million francs.[3]

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[1] In 1814 the Ministry wrote to the Chambers of Commerce: "Nous sommes à la vieille de reprendre avec les peuples qui nous environnent nos anciennes relations. . . . Ne perdez pas de vue que tout est reciproque ici; que nous n'avons rien à exiger des autres nations; qu'il ne peut être question que d'avantages mutuels à negocier et stipuler" (quoted by Levasseur, i. p. 563).

[2] Brandt, pp. 85-6.

[3] Foville, pp. 266 *seq.*

	General Trade.		Special Trade.	
Year.	Imports.	Exports.	Imports.	Exports.
1816	243	548		
1817	332	464		
1818	336	502		
1819	295	460		
1820	335	543		
1821	399	405		
1822	426	385		
1823	362	391		
1824	455	441		
1825	534	667		
1826	565	561		
1827	566	602	414	507
1828	608	610	454	511
1829	616	608	483	505
1830	638	573	489	453

Towards the end of this period there came a distinct reaction. There had always been a considerable body of opposition to the policy of extreme restriction, and this increased in vigour as manufacturers felt the disadvantages of all-round Protection, and as the interests of particular groups exercised too evident an influence upon legislation. The Ministry of Martignac was conscious of the turn of public feeling, and appointed in 1828 a commission of inquiry, which reported that in the conditions of French industry a policy of "reasoned Protection" was desirable, but that great care should be taken to prevent the aid given to one industry from damaging another.[1] St. Cricq, now Minister of Commerce, prepared a scheme of reform, but its consideration was prevented by the political confusion which ended in the overthrow of the throne of Charles X. Surveying the economic policy from 1814 to 1830 as a whole, few students will be inclined to dissent from the judgment of Levasseur, that it is not the policy of Protection itself that is to be condemned—for it was the outcome of the particular conditions of France and Europe, and of a particular habit of thought—but its aggravation and elaboration for twelve years at the dictation of private interests.[1]

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[1] Levasseur, i. p. 591.

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[1] Levasseur, i. p. 594.

CHAPTER II

THE MONARCHY OF JULY

THE new monarchy set up by the revolution of July, 1830, was not likely to make any radical changes in the now almost traditional economic policy of France. Under the influence of the reaction against the extreme Protection of the last years of the Restoration Monarchy, Louis Philippe and his advisers were themselves prepared to make some amendments to the tariff; but they had been placed in power by the middle classes who desired, above all things, to avoid the disturbance likely to be caused to trade and commerce by the more drastic political changes advocated by the republicans. The Government boasted of its origin; it accepted the task imposed upon it by its creators; and it deliberately endeavoured to administer the country in their interests.[1] It is true that the franchise was lowered, but in the existing economic conditions of France this meant only the control of the legislature by the middle class, chiefly interested in trade and commerce, and, whilst not unwilling to see the protection given to the landowners reduced, quite resolved not to allow any tariff changes likely to endanger its own position. Throughout the whole period 1830–48 there were few important modifications of the customs duties —though there were considerable changes for the better in the administrative arrangements of the customs service—and the Legislature almost always showed itself much less liberal than even the Executive.

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[1] "La politique que nous soutenions et pratiquions ainsi avait son principal point d'appui dans l'influence préponderante des classes moyennes : influence reconnue et acceptée dans l'intérêt general du pays, et soumise à toutes les épreuves, à toutes les influences de la liberté générale. . . . Les classes moyennes, sans aucun privilège ni limite dans l'ordre civil, et incessamment ouvertes, dans l'ordre politique, au mouvement ascendant de la nation tout entière, étaient, à nos yeux, les meilleurs organes et les meilleurs gardiens des principes de 1789, de l'ordre social comme du gouvernement constitutionnel, de la

The earliest enactments under the Monarchy of July were concerned chiefly with the transit and entrepôt trade. In 1831 and 1832 the restrictions upon the transit of foreign merchandise through France were mitigated, and the system of bonded warehouses rearranged and developed. The Chamber reduced the number of ports at which the Ministry recommended that these warehouses should be permitted, but the main conflict arose over the proposal to authorise the establishment of similar warehouses at certain internal trading centres—Paris, Lyons, and Strassburg. They had existed there before, but that did not prevent the seaports from making a determined opposition to

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liberté comme de l'ordre, des libertés civiles comme de la liberté politique, du progrès comme de la stabilité" (Guizot, *Mémoires*, vol. viii. pp. 522–3, ed. 1867).

the system, since they believed that their own trade would thereby be reduced. However, the Government scheme was carried.[1]

The next reform suggested by the Ministry did not secure even so limited an acceptance. The corn laws were working in a very unsatisfactory manner; the zones were badly arranged, and the selection of the markets whose average prices were to determine the opening or closing of the ports to foreign grain was open to many objections; the constant changes and resulting uncertainty hampered merchants; there were great inequalities of price between the various parts of the country; and although the average home production of corn was slightly higher in 1827–31 than in 1822–6, yet the average price showed a very considerable increase.[2] The Government, therefore, proposed that the absolute prohibition (in certain cases) of the import of grain should be abandoned, and replaced by an extension of the sliding scale of duties; that the country should be divided into two great districts instead of four zones; that the price of bread instead of corn should be taken as an index; and that in cases of scarcity the surtax

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[1] Amé, i. pp. 181 *seq.*

[2] The average production of corn was about 57 million hectolitre in 1822–6, and 58 million in 1827–31. The following table gives the average prices in francs per hectolitre (Brandt, p. 230):—

1822	15·5	1827	18·2
1823	17·5	1828	22·0
1824	16·2	1829	22·6
1825	15·7	1830	22·4
1826	15·8	1831	22·1

on grain imported in foreign vessels should be suspended. But friends and foes alike had come to regard the grain duties as the corner-stone of the whole protective system;[1] the manufacturers made common cause with the agrarians, and only the first of the proposals was adopted. But its application was postponed until 1833; by that time prices were falling, as a result of the particularly good harvest of 1832;[2] the application of the law was then adjourned until "the revision of the tariff," and as that event did not take place, the corn laws of the Restoration Monarchy were still in force in 1860.[3]

This experience discouraged the Ministry (or rather the various short-lived ministries of the years 1830–40) from attempting any more elaborate legislation for some time. A number of schemes were prepared in 1832 for the removal of the prohibitions on certain qualities of cotton thread, on cashmere shawls and Russian leathers, and reductions on silks and cattle; and in 1834 for the free admission of more qualities of cotton thread, iron cables, and rum, and reduced duties on certain wools and iron bars; but none of these came before the Chamber, and the only success was a few unimportant changes made by royal ordinance. The proposals of 1834 are chiefly interesting because made by Thiers, who was then for a brief period Minister of Commerce. As he was destined to exercise later a great influence on French economic policy, it is interesting to note his opinion at this time that "employed as a means of retaliation, the system of restriction is disastrous; as a means of preference, it is improper *(abusif);* as an encouragement to an 'exotic' industry which cannot be brought here, it is powerless and idle. If used to protect a home industry which is likely to succeed, it is good, but only temporarily so; it ought to come to an end when the industry has completed its education, when it has become an adult."[1] Thiers' successor (and predecessor), Duchâtel, held much more radical views, but could accomplish nothing; he appointed in 1834 a commission to consider how far the maintenance of prohibition was necessary in the case of certain specified commodities (particularly textiles, over which there was a fierce conflict between the spinners and weavers), but the appointment only called forth a great agitation on the part of the threatened interests; and practically the matter dropped.

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[1] "Ma conviction profonde est que le jour ou la Chambre et le gouvernement auront abandonné la protection de l'industrie agricole, ce jour-là sera la vieille de celui ou ils abandonnerent la protection de tous les produits industriels" (St. Cricq, in debate on the proposed law).

[2] The production of corn rose from 56·4 million hectolitre in 1831 to 80·1 million in 1832; the average price fell from 21·8 francs in 1832 to 15·6 in 1833.

[3] Amé, i. p. 188.

In 1836, however, the Chamber showed a more liberal tendency, partly because of the influence of the wine-growing districts. The duties on some kinds of wrought-iron, coal, and cotton were reduced; and the prohibitions of the import of some qualities of cotton yarn, cashmeres, and Russian leather, and of the export of such commodities as soap, hides, and timber for shipbuilding, were abandoned. Moreover, the free admission of raw materials was allowed on condition that within six months an equivalent amount of goods manufactured from them was exported. The result was that the Protectionists were alarmed, the manufacturers and agrarians again drew together, and a current of legislation in the opposite direction set in,[1] though without producing any important changes. Finally, in 1841, there came the last considerable enactment of the July Monarchy. The duty on sewing needles, which had remained at 2 francs per 100 kilo. since 1814, was quadrupled, with the result that whilst the import of British needles (which had an average value of 60–70 francs per 100 kilo.) was almost unaffected, the import of the cheap German needles (with an average value of 5–15 francs) collapsed altogether. This brought France into conflict with the Zollverein, but the retaliatory measures adopted by the Germans had little effect. The law of 1836 had reduced the duties on cashmeres about 33 per cent.; but, on the other hand, the duties on flax and hemp products were now increased. This was due chiefly to the extremely rapid advance in the imports from Great Britain, where great improvements in production had been made about 1830. The weaving industry in France was rising, and the imports of foreign linen were falling; the French manufacturers therefore desired the free or nearly free admission of linen thread, and higher duties on the manufactured article. The spinners, however, were undoubtedly in difficulties, and they combined with the agrarians to demand higher rates on thread; and they were sufficiently strong to obtain their desire. Finally, the Act made some changes in regard to machinery. The shipbuilders complained that the duties on foreign machinery (especially steam-pumps, which were subject to the highest rates) hampered their industry; and they now secured the free admission of machinery intended for ships to be engaged in foreign trade. But the home manufacturers were given a bounty of 33 per cent. on all such machinery that they made; and as a further compensation, the duties on other kinds were increased in 1844. On the whole, then, the legislation from 1840 onward (the period of the Ministry of Guizot) did not depart to any notable extent from the old lines.

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[1] Quoted in Amé, i. p. 191.

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[1] "Le tarif était soumis à des oscillations où les hasards des influences individuelles se manifestaient plus souvent qu'une pensée d'ensemble bien arrêtée, ce qui fit dire à M. Glaiz-Bizoin : 'La plupart de nos industries reçoivent une protection, non en raison de leur importance, mais en raison de l'importance des personnes qui les exercent'" (Amé, i. 206).

But during these years a series of events occurred which were important less in their immediate effects than as a foreshadowing of a revolutionary change which was to come later.

Ever since Belgium had broken away from the kingdom of the Netherlands in 1830–1 attempts had been made by France to establish closer relations with the newly independent state. There can be no doubt that Louis Philippe desired, but did not dare, to authorise the acceptance of the crown offered to his son;[1] but it is also clear that there was strong opposition from the French manufacturers, who believed that such action would be followed by tariff changes which would expose them to the powerful Belgian competition. After the succession question was settled, proposals for a customs union with France were put forward tentatively from Belgium, which had shown extraordinary industrial productivity, was eager for large markets, and believed that the newly formed Zollverein might close Germany against it. But there was little enthusiasm on either side; the French manufacturers were hostile, and many Belgians feared that commercial union might mean the loss of their newly acquired political independence. The negotiations continued at intervals, but nothing was done until 1842, when a treaty was signed which gave Belgium some preferences on iron, coal, and textiles, and secured for France reductions on silk goods, salt, and wine. Probably had the matter been decided by economic considerations alone the French Chamber would not have ratified the treaty, for the manufacturers were uneasy, and the value of the Belgian concessions was lessened by their immediate extension to the Zollverein; but ultimately the treaty, with some modifications, was ratified in 1845 for six years, mainly for political reasons and the desire to counteract any movement of Belgium towards the Zollverein.[1] In 1843 also a treaty with mutual reductions was made with Sardinia for four years, and also approved by the Chamber chiefly on political grounds; and there were a number of other treaties of no great importance, mainly with non-European powers. Guizot had at one time some hopes of securing a treaty with Great Britain, and sounded some of the British ministers on the subject; but though they were not unfavourably inclined, the scheme was felt to be impracticable; and political complications prevented a renewal of the proposal.

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[1] Guizot, *Mémoires*, ii. pp. 424–8.

At this point it will be convenient to set out the figures of French foreign trade from 1830 to 1848 in million francs:—[2]

SPECIAL TRADE

Year.	Imports.	Exports.	Year.	Imports.	Exports.
1831	374	456	1840	747	695
1832	505	507	1841	804	761
1833	491	560	1842	847	644
1834	504	510	1843	846	687
1835	520	578	1844	868	790
1836	565	628	1845	856	848
1837	569	515	1846	920	852
1838	656	659	1847	956	720
1839	651	677	1848	474	690

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[1] Amé, i. pp. 219–27.

[2] Foville, pp. 268–9.

(The figures for 1848 show the marked effects of the internal troubles of that year.)

It will be seen that there had been a very considerable upward movement, and that in spite of high Protection the imports after 1840 greatly exceeded exports. The Monarchy of July was not a heroic Government; it clung too much to its "policy of resistance"; its views were short and its horizon narrow. But it did give France order for a time long enough to enable the necessary changes in industrial organisation to be completed; it took an intelligent and active part in the promotion and extension of railways, highways, and canals; it brought the national finances into order; it passed a good deal of useful legislation;[1] and it did very much for primary and secondary education. Its great weakness was that it failed to recognise the social changes arising from the new economic conditions. It ignored the new force—the workmen—and these turned to socialism. Its faults were due not so much to itself as to the conditions under which it had to work; and its greatest misfortune was that the merest accident brought about its fall at the time when a movement was in progress which might have enabled the Monarchy of July to carry out the reforms contemplated at the outset of its career.

During the eighteen years since the accession of Louis Philippe the industries of the country had made marked progress. The total consumption of coal in 1830 was 2,494,000 tons, and the home production 1,863,000; in 1845 the consumption had risen to 6,343,000, and the production to 4,202,000.[1] The amount of pig-iron produced increased from 224,000 tons in 1831 to 602,000 tons in 1847. Textiles showed a similar development: it is estimated that in 1834 there were 1,500,000 cotton spindles employed in France, and in 1844, 3,500,000;[2] the value of the wool consumed at home averaged about 16 million francs in the last years of the Bourbons, but had reached 30 million francs in 1847; in linen and silk there was the same upward movement. In agriculture the yield of corn averaged about 67 million hectolitres for the years 1831–5, and, in spite of a comparatively very poor harvest in 1846, 80 million for 1844–8.[3] The quantity of sugar manufactured rose with remarkable rapidity; it was 6 million kilo. in 1830, and 53 million in 1847.[4]

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[1] See the list of enactments given by Guizot in the last chapter (vol. viii.) of his *Mémoires*.

In view of this general progress of French manufactures and agriculture alike, the extreme Protection hitherto employed seemed no longer necessary. A considerable part of the trading community, particularly in Paris and the seaports,[5] began to advocate the adoption of a less restrictive policy; and they were supported by the wine-growers and the farmers of the Gironde.[1] The new movement received a great stimulus from the success of the English Free Trade agitation, as expounded to the French people in Bastiat's work entitled *Cobden et la Ligue;* and soon a Free Trade Association was founded in France, and gave expression to its doctrines in its newspaper, *Le Libre Exchange*, and more scientifically in the *Journal des Economistes*, which had been established in 1841. The manufacturers, and the agriculturists who look their side, in reply formed a counter-association, and issued *Le Moniteur Universel* to present their case to the public.[2] The question was eagerly debated, and the Ministry —though hampered by the popular suspicion that Guizot was unduly favourable to Great Britain—believed that it could at last take action in the direction which some of its members had long desired. A Bill was prepared, which made a considerable number of important reforms in the tariff; but it was still only in the discussion stage when the revolution of February, 1848, brought about the overthrow of the Monarchy of July.

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[1] Foville, p. 208.

[2] Levasseur, ii. p. 125.

[3] Brandt, p. 230.

[4] Noël, p. 96.

[5] The lead was taken by Bordeaux.

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[1] Noël, p. 83.

[2] Amé, i. pp. 244-7.

CHAPTER III

THE SECOND REPUBLIC AND THE SECOND EMPIRE

THE COMMERCIAL TREATIES

THE brief career of the Second Republic brought no change in the economic policy of France. In fact, even the Socialists, who at first shared the government with the more moderate Republicans, were inclined to make common cause with the manufacturers and landowners for the defence of the protective system;[1] they seem to have believed that its maintenance was necessary for the success of those sweeping economic changes which they were bent on accomplishing under the leadership of Louis Blanc. Their attempts ended in disaster, and intensified the alarm felt by the commercial and industrial classes, already sufficiently harassed by the disorders caused to business by the prolonged political confusion; and after a sharp struggle the Socialist leaders were ousted from the Government.

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[1] "Le suffrage universel ne fut pas plus favorable, tout d'abord, que le suffrage restreint au principe de la liberté commerciale . . . une sorte de réaction violente contre les tendances liberales des derniers jours du régime de Juillet se manifesta parmi les couches que la Revolution venait de faire surgir" (Noël, pp. 100–1).

The Republicans were free to arrange a new constitution; they decided upon a single Chamber and a President of the Republic—both to be elected by universal suffrage. Now the grant of universal suffrage gave the decision into the hands of the peasantry, and the immediate result was the election of Louis Napoleon, partly because his name represented for France internal order and external renown.[1] The subsequent transition of Napoleon from President to Emperor presented few difficulties.

The tariff changes made during this period were few. The Constituent Assembly increased the drawbacks given on textiles and a few other goods for a time, in order to help the manufacturers to meet some temporary difficulties.[2] Later the Legislative Assembly made shipping agreements with Belgium and some American republics, and renewed the treaty with Sardinia. The tariff question was not directly raised until December, 1850; in that month Sainte-Beuve brought forward a series of resolutions which proposed the abolition of the protective duties on food and raw materials, the abandonment of all prohibitions, the reduction of the duties on iron after four years, the establishment of maximum duties of from 10 to 20 per cent. on all manufactured goods, and the cessation of all shipping and colonial privileges. The resulting deficit in the national revenue was to be met by the imposition of an income tax.[1] The proposals gave rise to an animated debate in 1851, and, although their introduction was ill-timed, the fact that they secured the votes of one-third of the Legislative Assembly[2] showed that there was a considerable Free Trade party in the country. The opposition to them was led by Thiers, who based his case chiefly on the higher cost of production in France than in England, and the vital importance to the French manufacturers of maintaining control of the home market.[3]

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[1] Seignobos, *Histoire politique de l'Europe contemporaine*, p. 152.

[2] Amé, i. p. 256.

But with the establishment of the Empire a change began. Napoleon III. was a close student of English affairs; he had been much impressed by the reforms of Sir Robert Peel, and was not unwilling to attempt to imitate them in France. At the very outset of his reign the Foreign Minister drew the attention of his colleagues to the fact that the reform movement was not confined to Great Britain; and the Emperor and his ministers soon resolved on sweeping changes. It would have been extremely difficult to secure the concurrence of the Legislature, so it was determined to make use of the powers conferred on the Executive Government by laws of 1814 and 1836. The former empowered the Government to suspend the duties on foodstuffs and raw materials in case of emergency, subject only to the approval by Parliament of the decrees issued for that purpose; and the law of 1836 authorised the free admission (by decree) of goods intended to be still further worked up in France.[1]

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[1] Amé, i. pp. 267–8.

[2] 428 votes were given against further consideration of the proposals, 199 for.

[3] Brandt, pp. 112–13.

The task was taken vigorously in hand. Between 1853 and 1855 duties were reduced on coal, pig-iron, iron, steel, wool, dye-woods, cotton, etc.; under the stimulus of a sharp rise in prices the rates on cattle, meat, wines, and other foodstuffs were lowered, and in 1853 the sliding scale regulating the movement of grain was suspended; free admission was granted to materials for shipbuilding; and the restrictions on foreign shipping were greatly reduced. These various decrees were confirmed by the Legislature in 1856, but not without considerable hesitation.[2] The Government now went still further, and in June, 1856, it proposed to the Legislature an enactment which abolished all the existing prohibitions,[3] and replaced them by protective duties ranging from 30 per cent. *ad valorem* to double that amount. At once there was a violent agitation against these very moderate proposals for reform; the manufacturing towns—Roubaix, Lille, Rouen, Lisieux, Elbœuf—were particularly active in their hostility;[4]

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[1] Devers, pp. 132-3.

[2] Amé, i. p. 271.

[3] There were still a considerable number of these, dealing with all kinds of commodities—woollen and cotton yarn and cloth, clothing, leather goods, metal goods, refined sugar, chemicals, etc.; many of them were purely accidental, being remnants of the "continental system." Few could be considered of any real importance to French industry (Amé, i. pp. 287-8).

[4] Amé, i. pp. 273-6.

and the Government deemed it advisable to withdraw the scheme and to promise not to renew it before 1861. The imperial policy met also with a bad defeat in the case of grain. In 1853, in consequence of a sudden rise of price, the sliding scale had been suspended, and as prices continued to rise until 1856, the suspension continued also; but when, in 1857, a fall commenced and the Government made no attempt to re-establish the scale, the farmers were aroused, and, in spite of the opposition of ministers the old conditions were restored in 1859.[1] By that time the attention of Napoleon and his advisers was concentrated on the Italian War, and the grave European complications which it brought in its train; and for a time it seemed likely that no further economic reforms would be attempted. In spite of some failures, Napoleon had made considerable breaches in the protective policy of France, and he and his minister, Rouher, could point to the statistics of French foreign trade as evidence of marked national progress under their régime. The movement of exports was particularly satisfactory; the following table gives the figures from 1849 to 1860 in million francs:—[2]

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[1] The following are the average prices in francs per hectolitre, 1851 to 1859 (Brandt, pp. 230–1):—

1851	14·5	1856	30·7
1852	17·2	1857	24·3
1853	22·4	1858	16·7
1854	28·9	1859	16·7
1855	29·3		

[2] Foville, pp. 269–70.

SPECIAL TRADE.

Year.	Imports.	Exports.
1849	724	938
1850	791	1,068
1851	765	1,158
1852	989	1,257
1853	1,196	1,542
1854	1,292	1,414
1855	1,594	1,558
1856	1,990	1,893
1857	1,873	1,866
1858	1,561	1,887
1859	1,641	2,266
1860	1,897	2,267

Towards the end of 1859 Napoleon's position in international politics had become extremely difficult. France was practically isolated in Europe: the events of the Italian War had made friendly relations with Austria impossible, without creating any particular feeling of gratitude on the part of Italy; the acquisition of Savoy and Nice had alarmed the European Governments, who habitually over-estimated the political ability and military strength of Napoleon, and made them believe that the Second Empire would endeavour to emulate the deeds of the First; the relations between France and her ally of the Crimean War were severely strained. The Emperor was anxious to put an end to this isolation, he was desirous of convincing the world that his aims were absolutely pacific, and he readily welcomed the proposals that he should give the best possible evidence of this by making a commercial treaty with Great Britain. The idea was not new, for, as we have seen, it had been put forward long before by Guizot, and suggestions in the same direction had been made in 1852;[1] but it was now taken up with energy, at first unofficially by Michael Chevalier, Cobden, and others of their school, and then by the Governments. Ministers on both sides, however, were only gradually convinced of the possibility of the scheme;[2] and on the French side it was necessary that the negotiations should be carried on in secrecy. It was quite true that tariff changes made in consequence of a treaty, and as part of that treaty, would not need the approval of the French Legislature, and an agreement with Great Britain would therefore be a way of accomplishing some of the tariff reforms which Napoleon III. and some at least of his advisers desired; but, though there was a not insignificant Free Trade party in France, the Protectionists were much more powerful, and, as they had shown in 1856, could cause the Government much inconvenience even if they could not entirely thwart the scheme. It was not until the negotiations were complete that Napoleon made his views public in a letter to one of his ministers, in which he declared that unless there is a constant increase of exchange trade cannot flourish, that industry not subject to competition remains stationary, and that in the absence of growing industries, agriculture itself remains undeveloped. He therefore advocated the abolition of the duties on cotton and wool, gradual reductions on sugar and coffee, the improvement of means of transit, the abandonment of all prohibitions, and commercial treaties with foreign Powers. There was a great outcry from the protected classes in France, encouraged by the favourable reception given to the Emperor's proposals by some of the British manufacturers, chiefly in Lancashire; but the treaty with Great Britain was signed on January 23rd, 1860. The final reasons on both sides were political.[1]

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[1] Amé, i. p. 300.

[2] For a detailed account of the negotiations, see Morley, *Life of Cobden*, chap. xxix.

The treaty did not do much more than indicate the general lines of the arrangements to be made; the details of duties were left to be settled by subsequent consultations. Both parties guaranteed "most favoured nation" treatment to each other; both were left absolutely free to extend the same reductions to other Powers if they thought fit, and indeed it was understood from the first that Great Britain would do so; both reserved the right to impose additional customs duties equivalent to the excise levied on any commodity; both agreed not to prohibit the export of coal. As to actual reductions of duties, the British Government undertook to recommend certain abolitions and diminutions to Parliament in Gladstone's forthcoming budget, and France undertook to abolish all prohibitions and to levy instead specific duties not exceeding 30 per cent. *ad valorem* up to October, 1864, and after that 24 per cent. The actual specific duties were to be fixed by joint agreement. The treaty was to hold good for ten years, and could be continued, unless one year's notice of its termination was given by either party, for another ten years.

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[1] For the evidence of this on the French side, Morley, *loc. cit.*, pp. 720, 725. On the British side Gladstone wrote: "A French panic prevailed as strong as any of the other panics that have done so much discredit to this country. For this panic, the treaty of commerce with France was the only sedative. It was in fact a counter-irritant; and it aroused the sense of commercial interest to counteract the war passion. It was and is my opinion, that the choice lay between the Cobden Treaty and not the certainty, but the high probability of a war with France" (quoted in Morley, *Life of Gladstone*, ii. p. 23).

The customs changes proposed by the British Ministry were accepted by Parliament—Gladstone's budget of 1860 reduced the number of commodities liable to duty from 419 to 48. For France the most important diminutions were on wines: the old duty was slightly more than 5*s*. 10*d*. a gallon; after January 1st, 1861, this was to be replaced by graduated duties ranging from 1 to 2 shillings. The French calculated that on their wines this meant a change from 159 francs per hectolitre to 27·5 francs. The duty on brandy was reduced 30 per cent.

On the French side the tariff changes were far more numerous and important. Only the specific duties on iron and coal were fixed by the original treaty; and in order to obtain guidance for the settlement of the remainder, the French Government appointed a commission to investigate first the average prices in France of the commodities now to be admitted, and secondly the specific equivalents of the *ad valorem* duties which should be imposed within the limits prescribed by the treaty. The commission took a great amount of evidence of all kinds, and the net result of its deliberations was a report to the effect that whilst mechanically the French industries were in many cases far behind the British, yet they were sufficiently well established to meet competition, and probably would be likely to make radical changes in their equipment and organisation only if compelled to do so by that competition. Consequently the French Government did not think it advisable to impose duties up to the maximum indicated by the treaty—which in many cases would have been practically prohibitive.[1] They reached the 30 per cent. *ad valorem* limit only for some metal products; on linen, cotton, and woollen cloths the average was only about 15 per cent.; on tools 10–12 per cent.; on cutlery 20 per cent.; on glasswares 10 per cent.; on china and earthenware 10 per cent.; on chemicals 15–10 per cent.[2] This action of the French negotiators did much to remove the reproach made in Great Britain against the original treaty that it was too one-sided, since under it Great Britain was bound to abolish duties whilst France had only to reduce them, and might still leave them at almost a prohibitive height.

Napoleon and his advisers had hoped from the first that once Great Britain had set the example of a treaty, other nations would not be slow to follow it. The expectation was justified; and, indeed, the industrial powers had no alternative if they did not wish Great Britain to enjoy marked advantages over them in the French market. Negotiations were immediately set on foot by various Governments, and it was natural that the first completed arrangements should be with Belgium. That country granted to France reductions in the duties on wines, silks, and leather goods; and in return was given the advantages of the "conventional" tariff established by France for Great Britain, with the addition of some changes in the rates on linen goods and prepared hides. Both contracting parties guaranteed "most favoured nation" treatment to each other. This was, in fact, the general policy pursued by France in all its treaties; it granted in each case the conventional tariff rates settled by the British treaty, and generally added one or two more reductions on commodities in which the other contracting party was especially interested; then these additional reductions (which probably would only benefit to any considerable extent the country to which they were first given) were extended to all the contracting Powers under the "most favoured nation" clauses. In return France secured from the Zollverein in 1862 (thus closing a long quarrel) reductions on wines, textiles, and some miscellaneous commodities—though the arrangement was not ratified by the various

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[1] Amé, i. pp. 310–15.

[2] An elaborate discussion of all the duties, and the reasons for them, is given by Amé, i. pp. 317–468.

German states until 1865; from Italy (1863) small reductions (for the Italian tariff was not very protective) on silks, chemicals, glassware, and prepared hides; from Switzerland (1864) reductions on wines, brandy, glassware, earthenware, chemicals. In 1865 treaties on similar lines were made with Sweden and Norway, the Hanse towns, Spain, and the Netherlands; in 1866 with Austria; and in 1867 with Portugal.[1]

Whilst an elaborate conventional tariff was being formed in this way, changes were being made in the general tariff also. In 1860 and the following years, either by legislative enactment or imperial decree, the duties on a great number of raw materials — skins, wool, cotton, dye-stuffs, jute, flax, hemp, coal, chemicals, and many others— were either greatly reduced or abolished; prohibitions of exports came practically to an end; bounties on exports were abandoned; transit facilities were increased; and finally, after long deliberation, in 1866 the preferential treatment of French vessels in regard to shipping dues and the trade with the Antilles and Algeria, and the surtaxes on goods imported to France not in French vessels or vessels belonging to the producing country, likewise ceased. Finally it should be noted that at the very commencement of the reform the French Government abolished (in 1861) the sliding scale for grain, and replaced it by freedom of export and a very moderate duty on imports.[2]

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[1] Details in Amé, ii. pp. 1–36.

[2] Devers, pp. 139–45.

Clearly the result of all these changes was an absolute break with all the traditions of French commercial policy; what was the effect on the industrial development of France? It must not be supposed that the opponents of the Emperor's action were ever brought to approve it; the Legislature gave its formal assent to changes made often without its knowledge, but the new policy was to the end accepted only reluctantly and with disapproval by the larger part of those classes who exercised political influences. By 1868, when the power of the Emperor had been severely shaken by failures in foreign policy, whilst the effects of the commercial crisis of 1864 had not yet ceased to be felt, and political events in the United States and the Germanic Confederation had harassed trade, and the time for the extension or abandonment of the British treaty was approaching—by that year the forces of the friends of Protection had recruited their strength, and a demand was made for an inquiry into the effect of the whole treaty system and the changes which it had brought in its train. The conflict continued for some time, but finally the Ministry gave way, and two commissions were appointed in 1870, only a very few months before the outbreak of the Franco-German War and the collapse of the Empire.

It is always arguable that the industrial and commercial progress of France between 1860 and 1870 might have been greater and more rapid if a higher tariff wall had been maintained; or that progress was certain in any case, and that tariff changes exercised little influence upon it. But this is mere speculation, and all the evidence goes to show that during the period from 1850 to 1860, when moderate reforms were being made, France commenced a rapid advance, which quickened considerably with the introduction of more radical changes of policy after 1860. First as to foreign trade. The following table gives the figures from 1860 to 1869 in million francs:—[1]

SPECIAL TRADE

Year.	Imports.	Exports.
1860	1,897	2,277
1861	2,442	1,926
1862	2,199	2,243
1863	2,426	2,643
1864	2,528	2,924
1865	2,642	3,088
1866	2,794	3,181
1867	3,027	2,826
1868	3,304	2,790
1869	3,153	3,075

The figures of French trade with the chief treaty-states are also instructive. In 1857 British exports to France were valued at £11,327,000; they declined considerably in the next two years, but in 1860 rose to £12,701,000; in the next year they were £17,427,000, and they rose steadily to £26,597,000 in 1866; after that there was a decline, due in part to a general commercial depression. Our imports from France were £11,965,000 in

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[1] Foville, pp. 270–1. The figures for the year 1870 show a slight decline owing to the war.

1857, and in 1860 £17,774,000; they reached in 1866 £37,017,000, and after that declined for a time.[1] With the Zollverein French exports remained almost stationary, with the exception of 1866, when there was a drop—they were valued at 209 million francs in 1862, and 214 millions in 1868; her imports, however, rose from 129 millions to 266 millions. With Switzerland the exports rose from 137 million francs in 1862 to 261 millions in 1868, and the imports from 58 millions to 132 millions. The total trade with Belgium increased from 344 millions in 1860 to 611 millions in 1869.[2]

The expectation that industry would receive a great stimulus from the opening of foreign markets and competition at home was amply justified; and the development was aided by the growth of means of transit and transport. In 1850 there were 3,010 kilometres of railways in France; by 1860 there were 9,439; by 1869, 17,111.[3] In 1850 the merchant shipping of France (2 tons and upwards) was returned at 688,000 tons; by 1860 the amount had reached 996,000 tons, and by 1870, 1,072,000 tons.[4] The home production of coal was 4,040,000 tons in 1849, 7,600,000 in 1859, and 13,509,000 in 1869; in the same period the total consumption increased in almost the same proportion, from 6,434,000 to 21,809,000 tons.[5] The production of pig-iron was 414,195 tons in 1849; by 1859 it had a little more than doubled; and by 1869 it amounted to 1,381,000 tons.[1] In 1849 only 9,000 tons of steel were manufactured, as against 23,000 in 1859, and 110,000 in 1869.[2] The cotton industries were naturally affected by the American Civil War, and the consequent temporary cessation of supplies, but, nevertheless, the consumption of raw cotton in France averaged 78 million kilo. for the period 1857–9, and 90 million kilo. for 1867–9.[3] Between the same two periods the average consumption of imported raw wool grew from 36½ million kilo. to 93 million kilo.[4] In the case of linens, the surplus of imports over exports rose from an average of 25 million kilo. in 1857–9 to an average of 45 million kilo. in 1867–9, in spite of a very large growth in French exports; the chief cause of this condition of affairs seems to have been the slowness of the French manufacturers to make use of jute.[5]

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[1] *Statistical Abstract for the United Kingdom,* Nos. 13 and 27.

[2] Noël, pp. 238–9.

[3] Foville, p. 307.

[4] *Report on British and Foreign Trade and Industry,* p. 386.

[5] Amé, ii. p. 387.

In agriculture it was natural that the wine growers should reap the greatest benefit. The production is, of course, subject to fluctuations due to natural causes, and the statistics of particular years are scarcely an adequate indication of the movement of the industry; but it may be pointed out that the estimated output of wine was 45 million hectolitres in 1850, 15 million in 1855, 39 million in 1860, and 69 million in 1865.[6] The exports of brandy and spirits were 173,000 hectolitres in 1858,

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[1] Amé, ii. p. 397.
[2] *Ibid.*, p. 404.
[3] *Ibid.*, p. 422.
[4] *Ibid.*, p. 415.
[5] *Ibid.*, pp. 425–6.
[6] Foville, p. 161.

224,000 in 1863, and 333,000 in 1867; after that there was a decline.[1] The manufacture of home-produced sugar was 132 million kilo. in 1859; after being stationary for some years it leaped up to 210 million in 1865, and reached 242 million in 1869.[2] The quantity of corn grown, which had averaged 82 million hectolitres for the years 1845–9, reached 98 million for the years 1865–9,[3] in spite of poor harvests in 1866 and 1867. Finally, it should be noted that population was increasing very slowly; in 1849 it was estimated at 35,690,000, and twenty years later at only 38,330,000, in spite of the fact that the acquisition of Savoy and Nice had added 689,000 persons to the inhabitants of French territory in 1860.[4] The proportion engaged in agriculture diminished considerably; in 1851 the rural population numbered 6,146 out of every 10,000 of the whole, whilst by 1866 the number had fallen to 5,119.

It is evident, then, that in the twenty years of Napoleon's rule France had made very substantial progress. By 1870 she had become a great industrial power; her commerce had expanded largely, her manufactures were firmly established, her agriculture was flourishing; and her economic strength was revealed to an astonished Europe by the ease with which she bore the burdens cast upon her by the war.

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[1] Noël, p. 236.

[2] *Ibid.*, p. 236.

[3] Brandt, p. 231.

[4] Foville, pp. 9–10.

CHAPTER IV

COMMERCIAL POLICY, 1870–81

THE Government of the Third Republic was called upon to deal at the close of the war with a financial situation of almost unparalleled difficulty. Thiers, who had been entrusted with the conduct of the Executive Government, estimated that to provide for all necessary expenditure (including the great debt-charges caused by the war indemnity) the annual amount raised by taxation must be increased by 556 million francs, or 22 million pounds sterling — an increase absolutely unprecedented.[1] By various forms of internal taxation he could raise, he thought, about 350 millions; and for the rest he resolved to have recourse to the customs. His own economic views had become frankly protectionist, but his main anxiety at this time was to secure revenue. He proposed in 1871 to increase the duties on sugar and coffee; to subject a number of raw materials—silk, wool, hides and skins, wood, etc.—to the duties from which they had been freed by the reforms of Napoleon III.; to re-establish some export duties; to impose harbour dues, and to renew the surtaxes on commodities carried in ships not belonging to the country of origin.[1] Manufactured commodities it was not possible to touch to any great extent, since most of the treaties made under the Empire would continue in force for a number of years.

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[1] Thiers, *Notes et Souvenirs*, pp. 186–92.

The proposals had a varied reception in the National Assembly. The revenue duties on sugar and coffee were approved at once, and extended to tea, cocoa, pepper, and some other commodities. On the other hand, the proposed export duties were dropped without the Government making any strenuous effort to retain them. The shipping surtaxes were imposed, and also the harbour dues; but in this connection difficulties were caused by the commercial treaties. With one unimportant exception, goods brought direct from the country of origin were exempted from the surtax[2] if carried in the ships of treaty states; and even if brought indirectly they were exempt if carried in Austrian, Belgian, Dutch, Italian, Swedish, German, or Portuguese vessels. The only country to whom these privileges were expressly granted by treaty was Austria; but they were extended to the others by force of the "most favoured nation" clause. For the proposed change to be productive of much revenue it must apply to all shipping, but this was possible only if Austria would consent to abandon its rights under the treaty of 1866. It might have done so, since it was interested only in the Mediterranean trade, and the French Government was willing to meet its wishes so far as that was concerned; but it was subjected to strong pressure from Prince Bismarck, and ultimately refused to grant the French request.[1] The proposals of Thiers in regard to shipping remained then ineffective, except the harbour dues, which affected foreign and French vessels alike.

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[1] Devers, p. 147.

[2] The so-called "droits de pavillon."

But the great question was the taxation of raw materials. The Ministry proposed to subject silk, wool, cotton, flax, and jute to a duty of 20 per cent. *ad valorem;* and hides, timber, oil-seeds, etc., dye-stuffs, and all other raw materials hitherto exempt, to various duties not to exceed 20 per cent.[2] Clearly this would hamper the manufacturers, and the President (who made himself responsible for the new scheme, which was, in fact, his work) proposed to remedy this first by the grant of drawbacks, and secondly by imposing on imported manufactured goods a compensating surtax presumed to be equivalent to the amount of the duty on raw materials.[3] But it was evident that the calculation and arrangement of the drawbacks would be a task of very great administrative difficulty, and the Budget Commission proposed, as an alternative scheme, the abandonment of the high duties and drawbacks, and the substitution of a uniform rate of 3 per cent. on raw materials, and an equivalent surtax on manufactured goods. It was estimated that this arrangement would produce some 60 million francs; the Government had counted on obtaining 165 million. There was a long parliamentary conflict; the manufacturers (especially those of Lyons) resisted the President's proposals fiercely; and finally the matter was referred to a new commission, which was directed to investigate the probable effect of the proposed taxation, and it was definitely stated in the resolution that the National Assembly would adopt duties on raw materials only if it proved impossible to provide adequate revenue in any other way. Thiers resigned, but was persuaded to retain office.[1]

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[1] Amé, ii. p. 318 *seq.*

[2] Devers, p. 150.

[3] The right of France to do this had been recognised in the commercial treaties.

In May, 1872, the commission reported. It recommended duties of 5 per cent. on cotton (with a drawback), and $2\frac{1}{2}$ to 2 per cent. on silk, wool, flax, hemp, and jute (without drawbacks); and its plans were adopted. It was an unsatisfactory proposal, since until the expiration of the treaties the new taxes would yield only some 42 million francs—a comparatively unimportant sum. Moreover, it was resolved that no duties should be imposed on raw materials unless a corresponding surtax was imposed on manufactured goods; and, whatever the actual powers of the French Government under the existing treaties may have been, the practical result was to render the new tariff law useless until the revision of the treaties or the establishment of an entirely new set.[1]

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[1] For his own account of these events see Thiers, *Notes et Souvenirs*, pp. 259–62.

Already negotiations had commenced, first with Great Britain. But there the French Government encountered many difficulties; the British ministers were unwilling to recognise the right of France to impose duties on imported raw materials unless the same commodities were taxed when produced at home, and they were not so favourable to the idea of commercial treaties as they had been in 1860. France had difficulties with Belgium also; and in March, 1872, she renounced both the British and Belgian treaties. Then fresh deliberations began, and in November, 1872, a new convention with Great Britain was signed. France pledged itself not to increase the taxes on raw materials imposed by the new tariff, and it abandoned some; it exempted British ships from the operation of the surtaxes up to 1879. In the following February a new arrangement was made with Belgium on similar lines.[2] Both of these were only to be in force till the middle of 1877. The numerous exemptions from the shipping surtaxes, and the practical impossibility of doing anything with the proposed duties on raw materials, at last brought the National Assembly to recognise the uselessness of the two enactments, and in July, 1873, both were repealed. Two months earlier, Thiers had abandoned office; and of all his elaborate plans of 1871 only that unimportant part which concerned the harbour dues had been realised. The deficit was met by a number of new internal taxes of various kinds—excises, stamps, etc., and the taxation per head in France was higher than in any other country of Europe.[1]

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[1] Amé, ii. p. 297.

[2] Devers, pp. 155–6.

It soon became necessary for the French Government to consider what policy it should adopt when the various treaties came to an end, and in order to obtain some guidance on this point the Ministry of Commerce invited, in April, 1875, an expression of opinion from the Chambers of Commerce and similar bodies. It asked three questions: Was the general tariff in need of revision? Was it desirable to continue the system of commercial treaties? Should the customs duties be specific or *ad valorem?* The great majority replied that the general tariff did need revision, and preferred specific to *ad valorem* duties; the larger number were in favour of the treaty system, but a strong minority (including Rouen, Roubaix, and Turcoing) urged the establishment of a simple autonomous tariff.[2] And it is noteworthy that even amongst the supporters of the commercial treaties, the greater part were opposed to the insertion in them of the "most favoured nation" clause. The task of preparing a new scheme of duties was entrusted to the Superior Council of Commerce, Agriculture, and Industry—a body formed a few years previously, and composed of members of the Chamber of Deputies, presidents of Chambers of Commerce, representatives of agriculture, industry, and banking, and some officials who, however, were not entitled to vote.[1]

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[1] Brandt, pp. 146–7.

[2] Devers, p. 157.

The result was a scheme for a moderate tariff which reproduced almost without alteration the rates of duty established by the conventional tariff already in force; almost the only increase of importance was on woollen goods. *Ad valorem* duties were abandoned almost entirely; whatever theoretical advantages they might have, experience had shown that they caused endless difficulties.[2] At the time of the treaty with Great Britain in 1860 an attempt had been made to get rid of them; but considerations of time, and the difficulty of calculating the specific equivalents, had caused many of them to be retained. But difficulties as to the valuations at the customs-houses were constant; and in spite of various administrative changes, frauds by under-valuation were frequent. The customs officials themselves were anxious to be freed from a complicated and irksome task.

The plan so elaborated was not discussed by the Chamber, owing to the constitutional crisis of 1877, but in the first month of the following year Teisserenc de Bort, the Minister of Commerce, brought forward a new scheme. It was much more protectionist than the previous proposals, since it increased the duties by about 24 per cent. on the average; so that whilst the council had practically recommended that the conventional tariff should become the general tariff, and be subject to reductions by treaty, the Ministry now proposed merely to retain the existing arrangements. But that did not satisfy the Legislature. There was a marked revival of the agitation in favour of Protection—just as in Germany in the same years; in both countries the campaign was led by the textile and iron industries, which were able to act the more effectively since they were in the hands of a comparatively small number of powerful firms.[1] The silk industry alone was ranged with the commercial classes on the other side, and favoured the maintenance of the treaties, to which the Protectionists were particularly hostile. In agriculture the wine-growers supported the policy pursued since 1860, but the great majority of the landowners were with the opposition—they were alarmed by the growing invasion of American wheat and the continued low prices. The imports and exports of corn into France fluctuate greatly; between 1861 and 1880 there was a surplus of exports over imports in five years, and in the other fifteen the surplus of imports over exports varied from 971,000 to 29,349,000 hectolitres.[2] The surplus of the imports of corn over exports, which had never previously exceeded 14 million hectolitres, reached nearly 18 million in 1878, more than 29 million in 1879, and nearly 27 million in 1880. The result was that prices did not rise, and even fell a little,[1] in spite of poor harvests (the cause of the large importations) in 1878 and 1879; and the French farmers became alarmed. They threw themselves into alliance with the manufacturers, and the agitation was helped by the commercial crisis which had commenced elsewhere in Europe in 1873, but did not make itself felt in France till some years later: it was marked, amongst other things, by a general fall in prices, due in part to the growth of means of transport and the fresh developments of mechanical power in industry. All over Europe and America industry was entering on a period of transition which tried manufacturers severely, and harassed commerce also. Yet in spite of all these difficulties, French foreign trade continued to make steady progress; the following table gives the figures from 1871 to 1880 in million francs[2]—it should be remembered that prices declined sharply after 1872–3:—

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[1] The great work of Amé, who was Director-General of Customs, was published chiefly for the guidance of the council at the instigation of Léon Say, the Minister of Finances.

[2] For German and American experience in this matter, see pp. 5-6, 168, 236-8.

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[1] Brandt, pp. 152–3.

[2] *Ibid.*, p. 231.

SPECIAL TRADE

Year.	Imports.	Exports.	Year.	Imports.	Exports.
1871	3,567	2,873	1876	3,988	3,576
1872	3,570	3,762	1877	3,670	3,436
1873	3,555	3,787	1878	4,176	3,180
1874	3,508	3,701	1879	4,595	3,231
1875	3,537	3,873	1880	5,033	3,468

[1] Average prices per hectolitre were: 1877, 23·4 francs; 1878, 21·2; 1879, 22·1; 1880, 22·2 (Brandt, p. 231).

[2] Foville, pp. 271–2.

These various circumstances, and the example of Germany, made the Senate and Chamber of Deputies even more protectionist than the Ministry. The Senate appointed a commission to inquire into the commercial and industrial depression; and the Chamber sent the ministerial tariff proposals to a committee. Both held elaborate inquiries extending over nearly a year, and during that time the campaign in the country in favour of Protection was carried on by the *Société des Agriculteurs de France* and the *Association de l'Industrie française pour la Défense du Travail national;* the Free Trade party started a counter-campaign, but without conspicuous success. Under the guidance of Méline the commission of the Chamber made radical changes in the proposals submitted by the Government. It declared that special advantages should be given to those national industries which employed most labour; it asserted that the treaties of commerce had clearly failed, since in the seventeen years after 1860 the total imports had exceeded the total exports by 270 million francs; it drew especial attention to the "American peril"; and it abandoned the hitherto avowed and moderate object of the protective policy—the possibility of French manufacturers competing with foreigners on equal terms—and advocated the purest Protection. It accepted the Government's recommendations in a number of cases, but it made substantial increases on woollen yarn, and for the agrarians on hides, cheese, cattle, etc. The Ministry stood firmly by the original proposals, and the new Minister of Commerce, Tirard, announced that the commercial treaties must be made; that they had promoted the economic progress of France; that the chief industries, particularly cotton and metallurgy, were quite able to stand alone, with only the moderate help given them by the treaty tariffs; and that the difficulties of agriculture were due chiefly to inclement seasons. The leader of the commission, Méline, urged that its proposed duties were not intended to be universally applied —that, in fact, the increases were intended to facilitate the work of the French diplomatists in the negotiation of the new treaties, which he and his friends recognised must be made.[1] There was a long parliamentary struggle, but the Ministry had its way, helped by the lack of union between the industrial and agricultural wings of the protectionist forces; nearly all the additions and changes recommended by the commission were rejected, and the agrarians secured only duties on certain animals imported for food. There were more difficulties in the Senate, which was favourably inclined to protection for agriculture; but ultimately the original ministerial proposals, only slightly altered, became law in May, 1881. The new Tariff was far more elaborate and detailed than any of its predecessors.

On the whole, it was a victory for the supporters of Free Trade. The new general tariff on manufactured goods exceeded the previous conventional rates by an average of 24 per cent., but this was intended only as a basis for negotiations; coffee, sugar, cocoa were taxed for revenue purposes only; raw materials and foodstuffs were free, or subject only to small duties, and some articles had been added to the free list; *ad valorem* rates were almost entirely abolished. The new system was much more moderate than the one adopted a little earlier in Germany; and unlike the German Government, the French ministers were prepared to continue the policy of international commercial agreements, subject to the approval, in each case, of the Legislature. They laid down three principles for their own guidance in the negotiations: (1) the concessions to be made should not exceed as a whole 24 per cent. on the general tariff; (2) specific duties alone should be imposed; (3) cereals and cattle should not be included, since it was desirable for the Government to have a free hand in cases of emergency.[1] The negotiations began immediately, first under the guidance of Rouvier, and later of Tirard. Treaties were made in 1881 with very little difficulty with Belgium, Italy, Portugal, Sweden, and Norway, and in 1882 with Spain and Switzerland; in 1883 an agreement with Austria-Hungary secured reciprocal "most favoured nation" treatment, and this was extended to Russia and Turkey, to Germany under the terms of the Treaty of Frankfurt, to Servia in 1883, and to Holland in 1884. With Great Britain no treaty could be made, partly because Great Britain would not reduce the wine duties, and for financial reasons would not guarantee that they should not be increased; and partly because no agreement could be reached on the question of *ad valorem* and specific duties. The negotiations broke down, but by legislative enactment France granted Great Britain "most favoured nation" terms in 1882. The net result of the treaties was that the new conventional tariff included some 1,200 articles, whilst 300 remained subject in all cases to the rates of the general tariff.[1] All the treaties provided for the equal treatment of French and foreign shipping; but as the French mercantile marine was far from prosperous (it amounted to 996,124 net tons in 1860, rose to 1,072,048 in 1870, and fell to 919,298 in 1880),[2] and the free import of materials for shipbuilding had not apparently been of much service, it was decided in 1881 to give State bounties to shipbuilders, and to owners for long-distance voyages.[3] In the ten years

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[1] See the lengthy summary of the debates in Devers, pp. 162–72.

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[1] Devers, pp. 171–2. It seems probable, however, that the last principle was dictated partly by the desire to give agriculture, which was admittedly in difficulties, as much help as possible.

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[1] For full details of those negotiations, see Rausch, pp. 186 *seq.*

[2] Blue Book on British and Foreign Trade and Industry, p. 376. The figures are for vessels of two tons and upward.

[3] The bounties ranged from 60 francs per gross ton on steel ships to 10 francs per gross ton on wooden vessels of less than 10 tons. On machinery and boilers 12 francs per 100 kilo. were paid. The bounty on voyages was 1½ francs per net ton for every 1,000 miles of journey; on vessels bought from abroad the bounty was half this amount.

1881–90 about 27 million francs were paid in bounties on shipbuilding alone, and the mercantile steam shipping increased from 356,636 to 747,512 gross tons.[1]

It will be convenient to add here the figures of French foreign trade from 1881 to 1891, in million francs.[2]

SPECIAL TRADE

Year.	Imports.	Exports.
1881	4,863	3,561
1882	4,822	3,574
1883	4,804	3,452
1884	4,343	3,232
1885	4,088	3,088
1886	4,208	3,249
1887	4,026	3,247
1888	4,107	3,247
1889	4,317	3,704
1890	4,437	3,753
1891	4,768	3,570

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[1] Franke, p. 137. But the net tonnage of mercantile shipping rose only from 919,000 to 944,000, *Report on British and Foreign Trade and Industry*, p. 376. For a detailed discussion of French shipping and the bounty system, see Franke, pp. 122–39.

[2] Brandt, p. 226.

CHAPTER V

THE MOVEMENT TOWARDS PROTECTION FOR AGRICULTURE

THE FRANCO-ITALIAN TARIFF WAR

THE agricultural classes had been disappointed by the tariff of 1881; they had made considerable efforts to secure the extension of Protection to their own particular interests, but without success except in a few almost unimportant instances. Yet they were the most numerous class of the community; in 1882 the number of persons connected with agriculture was over 18 millions, as against about 9 millions for industry and 4 millions for trade.[1] Nearly one-half the total population (actually 48·8 per cent.) were dependent on agriculture in one way or another. Moreover, the great number of small holdings made agricultural prices a subject of keen interest to a much larger class in France than anywhere else; in 1882 there were 5,529,917 holdings of 100 acres or less, and of these 4,802,697 did not exceed 25 acres.[2] And there is no doubt that those farmers who were engaged in corn growing were not doing at all well in the period from 1881 to 1890; in the first five years prices fell. The following table gives the average prices of corn from 1881 to 1890, in francs per hectolitre:—

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[1] Brandt, p. 168.

[2] *Ibid.*, p. 168.

1881	22·2	1886	16·5
1882	19·3	1887	17·7
1883	19·0	1888	18·8
1884	17·8	1889	18.1
1885	16·4	1890	18·9

Average prices between 1881 and 1890 were on the whole considerably lower than those for the period 1861–70, and very much lower than those for 1871–80, and the average production per acre had increased only slightly,[1] partly because of the smallness of the holdings and the lack of capital necessary for improvements; on the other hand, taxation had greatly increased since 1860, and especially since 1870, whilst the average wages of agricultural labour had increased 20 per cent.[2] The cattle-rearing industry was in a much better position, but the wine-growers and silk-producers, hitherto large exporters and therefore ranged on the side of the Free Traders, were now entering on a period of grave difficulties owing to the ravages of phylloxera and other diseases. The production of wine, which had reached in 1875 the exceptionally high figures of 84 million hectolitres, sank to 34 million in 1881 and 25 million in 1886; as a natural consequence the imports, which were insignificant in 1876, reached 8 million in 1881 and 11 million in 1886.[1] In the case of silk, the growing competition of China and Japan made itself felt acutely at the time when the French producers were struggling to recover from their disasters. The sugar-producers of Northern France complained of the ineffective character of the surtaxes on beet sugar, which did nothing to check the influx of the bounty-fed sugar of Germany and Austria-Hungary.[2] For all these various reasons the agriculturists were distressed and dissatisfied; they were ready to follow the leadership of Méline in his energetic campaign in favour of the extension of Protection to agriculture; and the characteristic feature of the tariff history of France, as of Germany, in the decade 1881–90 is the development of Protection in this particular direction. The various agricultural interests were no longer hostile; they combined, and, as in Germany, were able to force their policy upon the country,[3] in spite of the activity of the "Ligue anti-protectioniste," led by Léon Say.

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[1] See the tables in Brandt, p. 231.

[2] Foville, pp. 98–9.

It will suffice to sketch the growth of this legislation very briefly. In 1881 on sanitary grounds the importation of American pork was forbidden, though there was some opposition to this from the seaports. In 1884, as the result of strong pressure from Northern France, the surtax on beet sugar was raised from 3 to 7 francs, and various excise changes made in order to encourage the home producers. In 1885 the taxes on imported animals for food were raised—on oxen from 15 to 25 francs, on cows from 8 to 12, on calves from 1½ to 4, on pigs from 3 to 6, on sheep from 2 to 3. At the same time rye, barley, and oats, which had been duty free since 1861, were subjected to a tax of 1½ francs per 100 kilo., and the rates on flour were raised from 1·2 to 6 francs. In 1887 the duty on oxen was raised to 38 francs, on cows to 20, on calves to 8, on sheep to 5; the duty on flour was advanced to 8 francs, and on oats to 3 francs.[1]

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[1] Devers, pp. 183–4. [2] *Ibid.*, p. 176. [3] *Ibid.*, p. 184.

In the same year the customs duty on alcoholic liquors was raised to 70 francs per hectolitre of pure alcohol; this was at first intended as a temporary measure to deal with some passing difficulties created by German tariff legislation, but ultimately in 1888 the tax was continued indefinitely. In 1890, in order to give such help as was possible to the wine-growers, an excise was imposed on the manufacture of certain "wines" from raisins; additional customs duties could not be imposed owing to treaty obligations.

In the case of wheat, the first enactment was in 1885. Under the tariff of 1881 the duty was 60 centimes per 100 kilo.; the growers now asked that the amount should be raised to 5 francs. The Government, with Méline at the Ministry of Agriculture (established in 1881), was not unfavourable, but the Chamber of Deputies was not prepared to make so sweeping a change, and contented itself with fixing the duty at 3 francs. But the Protectionists regarded this merely as the first step, and immediately began to call for a fresh increase. They urged that the prices realised in the home market were not sufficient to cover the cost of production, which amounted to 19-20 francs per hectolitre; prices were actually considerably below this (see the table given above), although the import declined rapidly after the new corn law came into effect. In March, 1887, the duty was raised to 5 francs, but the Government was empowered to suspend the law at any time by simple proclamation.[1] The following table shows the home production and surplus imports over exports of wheat in hectolitres, and the average prices, from 1886 to 1892:—[2]

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[1] Devers, pp. 176–9.

Year.	Production.	Surplus Imports.	Average Price.
1886	107,287,082	9,586,987	16·5
1887	112,456,107	12,084,587	17·7
1888	98,740,728	15,356,830	18·8
1889	108,391,770	15,311,060	18·1
1890	116,915,880	10,466,448	18·9
1891	77,657,568	19,593,472	20·5
1892	109,537,907	18,833,960	17·8

On the whole the duties seem to have raised prices (there were further changes in 1891 and 1892), but not considerably—the only substantial rise was in the extremely bad year 1891. But probably the best view as to the effect of the new duties is obtained by a comparison with English prices. In 1883 and 1884 the import duty on wheat in France was 1*s.* 1*d.* a quarter; in the first year the amount imported was 13·9 million hectolitres, in the second, 14·8 million; but in 1883 the price per quarter in France was only 2*s.* 8*d.* more than in England, in 1884 it was 5*s.* 8*d.* In 1886, after the duty had been raised from 60 centimes to 3 francs, the French price was higher than the English by 7*s.* 6*d.* per quarter, but the average price in France was still lower than in 1884, and very much lower than in any previous year since 1865. In 1888, 1889, and 1890, after the increase of the duty to 5 francs, the average prices in France rose somewhat, but the excess of French prices over English rose in the three years to 11*s.* 11*d.*, 12*s.* 4*d.*, and 12*s.* 2*d.* respectively.[1] It would seem, then, to be fairly clear that the effect of the duties was not so much to raise prices as to prevent a fall in France similar to that which took place in England, and to that extent doubtless the French corn-growers benefited by the tariff changes.[2]

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[1] Franke, p. 13.

[2] Brandt, p. 231.

The one considerable event in the history of French foreign commerce during this period is the tariff war with Italy. Relations with that country had been decidedly strained for some time past. Italy had entered in 1863 into the treaty system established by Napoleon III.; but at the time the convention lapsed in 1875 she was engaged in the preparation of a new general tariff, and there were difficulties in the way of the renewal of a commercial agreement. At last, in 1877, a treaty was signed, and promptly rejected by the French Chamber by a narrow majority. On July 1st, 1877, Italy's new tariff came into force, and for some months the trade between that country and the French Republic was governed by the two autonomous tariffs; but neither party was content, and negotiations were soon renewed. An arrangement was quickly reached, and this in turn was superseded by the treaty of 1881, following on the new French tariff of that year. The new arrangements were to hold good until 1892, but there was provision for the termination of the treaty by either party in December, 1887; and a year before that date the Italian Government gave notice of its intention to use this power in the case of all treaties by which it was bound. The changed economic conditions of Italy, due to the completion of unity, the abolition of internal customs boundaries, and the growth of railways, had rendered it desirable in the judgment of the Italian Ministry that there should be a complete tariff revision—it was also in need of revenue; and the result of its deliberations was a strongly protectionist set of duties, which averaged nearly 60 per cent. *ad valorem*.[1] It had renounced the treaties in order to give itself a free hand in tariff matters, but at the same time it declared its readiness to enter into a new arrangement with France, and negotiations began in August, 1887.

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[1] *Report on British and Foreign Trade and Industry*, p. 126. Probably some allowance should be made for difference in qualities.

[2] Cf. Franke, pp. 10–13.

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[1] *Report on Tariff Wars*, p. 14.

By this time, however, the Italians had been greatly annoyed by the increase of French import duties on cattle, which had inflicted serious damage on an important part of the Italian export trade.[1] The French Government desired that the basis of discussion should be furnished by the treaty rates of 1881; Italy desired to start from its new general tariff, and summarily rejected the French suggestion. The diplomatic discussion was then transferred from Paris to Rome, and the Italians put forward their definite proposals. They would consider only 89 articles out of the 272 on which they had made reductions in 1881; and on most of these 89, and especially silk and woollen goods, they intended to make substantial increases.[2] On the other hand, they desired from France the guarantee of "most favoured nation" treatment, and some reductions of duties, chiefly upon cattle. These demands were rejected by the French Government; an alternative proposal on its part proved inacceptable to Italy; and the negotiations came to an end in February, 1888.

From the 1st March, Italy intended to apply to French products her new general tariff; and as the rates thus levied were somewhat higher than the duties imposed by the French general tariff, France established surtaxes on a number of Italian commodities. Thus there was an increase on wines from 15 to 20 francs per hectolitre, on butter from 13 to 25 francs per 100 kilo., on eggs from 10 to 20 francs, on dried fruits from 6 to 15 francs; and such raw materials as silk, flax, hemp, and skins, hitherto free, were subjected to small duties.[1] Italy replied by some further increases; and each party imposed surtaxes on goods brought in its opponents' ships. Diplomatic discussion still continued, and in July Italy made fresh suggestions; it offered reductions of 50 per cent. on its new general tariff, without, however, getting near to the terms of 1881. The new scheme was not acceptable to France, and the conflict continued. It lasted till the end of December, 1889, when the Italian Parliament authorised the abandonment of the war tariff against France; but it was not until January, 1892, that the French Government dropped its surtaxes on Italian products. From that time on the two countries dealt with each other under their respective general tariffs until 1899.

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[1] The value of the Italian export of cattle to France was 1½ million pounds sterling in 1880, and only 240,000 pounds in 1889 (*Report on Tariff Wars*, p. 15).

[2] Franke, p. 18.

The consequences of the war to the commerce between the two countries are unmistakable. The following table shows the French exports to Italy and Italian exports to France for the five years preceding and five years following the commencement of the war. It will be remembered that practically, although the acute struggle was over by the beginning of 1890, the conflict continued to 1899, since until that year neither country would grant the other its best terms; the table shows that the trade never recovered from the blow of 1888. The figures are million pounds sterling.[1]

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[1] *Report on Tariff Wars*, p. 23.

Year.	French Exports to Italy.	Italian Exports to France.
1883	12·0	17·1
1884	11·3	14·7
1885	11·5	10·5
1886	12·4	12·4
1887	13·0	12·3
1888	6·2	7·2
1889	6·7	5·3
1890	6·5	4·9
1891	5·4	4·9
1892	6·7	5·3
1899	6·1	6·3

The Italian Government admitted that the export trade in wine had suffered badly; that Spain and Portugal had replaced Italy in the French market. In 1887 France took from Italy 2,782,000 hectolitres of wine, and in 1888 only 817,000; in the former year France took 78 per cent. of the total Italian export, and in the latter year 45 per cent. In that case there was a marked falling off in the Italian exports; in other cases there was no such decline, since either new markets were found, as in the case of some agricultural produce, or the goods went to the same destination by a different route. A striking illustration of this latter alternative is furnished by silk: in 1887 Italy exported to France 28,178 quintals[2] of raw silk, and to

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[1] *Report on Tariff Wars*, p. 24.

[2] A quintal = 100 kilo.

Switzerland 7,300 quintals; but in 1888 France took only 9,188 quintals, whilst the amount sent to Switzerland rose abruptly to 29,621 quintals.

On the other side, France suffered in regard to her exports to Italy of colonial produce, silk and woollen manufactures, and a number of other commodities. The value of the woollen goods taken by Italy from France fell from 20 million francs in 1887 to 6·6 million in 1888; silk goods dropped from 6·8 to 3·4 million, cotton from 5·3 to 1·6 million, yarns of all kinds from 3 to 1·7 million.[1] On the whole, however, the total of French exports to all countries did not fall off, but, on the contrary, they showed an increase; so that France was able to recoup herself elsewhere for the loss (chiefly to Great Britain, and in woollen goods to Germany) of much of the Italian market. Italy suffered much more—her total exports declined considerably. The competitors of the two countries reaped the benefits of the struggle; to the combatants themselves it brought only difficulties and a great amount of damage.

The elections of 1885 and 1889 had greatly strengthened the parliamentary forces of the Protectionists, and they prepared to carry out their policy. They had been able, owing to the agrarian difficulties, to rally the agricultural classes to their cause; and their first efforts in 1890 were, as we have seen, on behalf of the wine-growers. In the same year, on the proposal of Méline, they secured increased duties on maize, rice, and meal. The manufacturing classes had always been in favour of Protection, and their zeal for it was stimulated by the continued commercial depression after the crisis of 1882, and the fact that the chief industries of France were making only slow advances.

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[1] Franke, p. 20.

One of the chief reasons for this was doubtless the very slight growth of the population, which numbered 36,103,000 in 1872 and 38,348,000 in 1892—an increase of only a trifle over 6 per cent. in twenty years. Consequently, in spite of the development of railways and the extension of the application of machinery to industry, the industrial output did not make very satisfactory progress. In 1872 there were 27,644 steam engines of 338,328 horse-power engaged in French industry; by 1891 there were 58,967 of 916,086 horse-power.[1] Railways made, or in making, increased from 26,640 to 47,352 kilometres.[2] The following table shows the movement of the iron and steel industry :—[3]

PRODUCTION (in tons)

	Pig-Iron.	Iron.	Steel.
1872	1,217,838	883,348	141,704
1891	1,897,389	833,409	638,530

The production of coal and lignite was in 1872 16 million tons, and in 1891 26 million; the amount consumed was 23 million tons in the former year, and 36·5 million in the latter. The average consumption of cotton in France was 98·8 million kilo. in 1873–5, and 111 million in 1888–90.[1] The consumption of silk was estimated at 5·8 million kilo. in 1872;[2] it fluctuated greatly, and in 1891 was 6·8 million (after being as high as 9·6 million in 1888). Woollens made moderate progress. In one industry alone—the manufacture of alkali and its kindred products—was there marked success, mainly owing to the discovery of the ammonia-soda process by Solvay; the output increased from 525,000 tons on the average for 1874–8 to 1,023,000 for 1889–93.[3] Foreign trade was unsatisfactory;[4] France was declining in comparison with her neighbours.

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[1] *Annuaire Statistique de la France,* 1896, p. 261.

[2] *Ibid.,* p. 373.

[3] *Ibid.,* p. 261.

There was growing dissatisfaction in France with the system of commercial treaties. Partly the agriculturists and manufacturers were inclined to high Protection, and were opposed to anything which mitigated it; and partly it was thought that the treaties made for a definite term of years tied the hands of the Government unduly, since no alteration could be made during the period, however much economic conditions might change. When at the end of 1889 the Superior Council of Commerce invited the opinions of the Chambers of Commerce and similar institutions on the subject, 96 out of 107 Chambers declared for the renunciation of the existing treaties, and 62 were opposed to any renewal. A substantial majority of the other institutions consulted gave similar advice.[1] On the other hand, it was felt to be undesirable to isolate France completely, and there was a general feeling in favour of the adoption of a suggestion of Méline—that there should be minimum and maximum tariffs, the former to be granted to those countries with which France made treaties, and the latter to apply to all countries not so favoured. This arrangement would differ from the system adopted by Germany at about this time in that the German "conventional" tariff was unchangeable so long as the treaties endured, whilst France would be able to raise her minimum tariff whenever she thought it necessary. The "most favoured nation" clause was extremely unpopular.

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[1] *Dictionnaire du Commerce* (ed. Guyot and Raffalovich), i. p. 1089.

[2] Foville, p. 234.

[3] *Dictionnaire du Commerce*, ii. p. 1357.

[4] See the table on p. 326.

The general arguments of the advocates of Protection were those with which we are already familiar in other countries. They emphasised the necessity of a policy of defence against growing competition, especially from the United States; they urged that a policy of Protection for agriculture, however much to be condemned in Germany, where it was adopted in the interests of the large landowners, was laudable in a country like France, with its great multitude of peasant proprietors; they put forward the doctrines of national self-sufficiency and security of the home market; and they argued that the restriction of imports would stimulate native industries, create an increased demand for labour and a consequent rise of wages.[1] The fears of some manufacturers that they would be further hampered by the taxation of raw materials were allayed by the promise of compensatory duties or drawbacks, and by the prospect of an enlarged home market owing to the renewed prosperity of the agricultural classes. But, indeed, argument was almost unnecessary; with the farmers and manufacturers combined the Protectionists were strong enough to overcome all opposition without difficulty.

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[1] Franke, pp. 25–6.

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[1] See the summary of debates in Devers, pp. 186–206. Cf. Brandt, pp. 182–5.

CHAPTER VI

THE TARIFF OF 1892 AND SUBSEQUENT DEVELOPMENTS
THE FRANCO-SWISS TARIFF WAR
CONCLUSION

THE preparation of the new tariff was entrusted to the two Councils of Commerce and Industry under the general guidance of the Ministry; and the resultant scheme was presented to the Chamber of Deputies in October, 1890. It adopted the plan of the maximum and minimum scales of duties—the former to be applied as a rule, whilst the latter should be granted to those countries which gave corresponding advantages to France. The basis of the minimum tariff was declared to be not Protection, but simply an attempt to enable French industries to meet foreign competition on equal terms.[1] In most cases it was proposed to increase the old duties, but the Government still declined to recommend taxation of those agricultural products which were raw materials for industry. The Chamber referred the plan to a standing commission for such matters, which had been established at the commencement of the year at the instigation of Méline; and that commission, under Méline's guidance, proceeded to make radical changes—it increased the proposed duties considerably, in particular on timber, wines, cattle, and meat (in order to compensate the farmers for the free admission of wool and hides); it made some advances on manufactured goods; and it recommended the grant of bounties to the native growers of flax and silk, since those commodities were to be exempt from duty. It urged also that the grant of the minimum tariff should not be made in such a way as to prevent France from increasing it at any time if she thought fit.

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[1] Devers, p. 186.

The discussions were long, not so much because of the strength of the opposition (though under the leadership of Léon Say that was able enough) as because of the resistance of the Ministry[1] to some of the proposals of the commission, and differences between the Senate and the Chamber—the former made 176 amendments, of which 148 were ultimately accepted. Some increases on agricultural products made by the commission were adopted, but, on the other hand, the Chamber rejected proposals for the taxation of silk-cocoons, and established instead bounties for six years to the silk-growers and weavers.[2] The commission recommended higher duties on wine than the Ministry, and these were accepted; but its changes in regard to oil-seeds (in which the agriculturists were greatly interested) were rejected. The alterations made by the Senate were entirely in the direction of increased rates. The new tariff became law in January, 1892.

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[1] France was enjoying a period of ministerial stability under Freycinet. Jules Roche was Minister of Commerce all through the period of tariff discussion.

[2] Franke, p. 37.

The new customs schedules dealt with 721 commodities, or groups of commodities, and were much more detailed and elaborate than any other continental tariff of the period. The minimum rates could be imposed on all products of countries which gave France similarly advantageous treatment; but non-European products coming from European countries and European products not coming directly from the country of origin were subject to surtaxes. Specific duties were employed almost alone; the only exceptions were in the case of chemicals. The new duties marked a very considerable advance of Protection; the average duty on agricultural produce was 25 per cent. *ad valorem* (the grain duties remained unaltered), and the following table shows some of the changes on manufactured goods.[1] It will be noticed that the advances are chiefly on textiles. The new tariff was very much higher than the conventional tariff created in the same year for Germany by the Caprivi treaties.

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[1] Brandt, p. 193.

DUTIES IN FRANCS PER 100 KILO.

		Conventional Tariff before 1892.		Minimum Tariff of 1892.
Linen or hemp tissues[1]	(unbleached)	22–375	...	24–500
Cotton tissues	,,	50–540	...	62–620
Linen yarn	,,	13–100	...	16–100
Cotton yarn	,,	15–300	...	15–310
Combed woollen	,,	20–80	...	28–80
Silk tissues	,,	0	...	400
Pig-iron		1·50	...	1·50–3·50
Iron bars		6	...	5
Steel rails		6	...	6
Tin plates		7	...	7·50–10

At the same time the Act establishing bounties for shipbuilding and subsidies to shipping was renewed, and bounties given for the growing of silk, flax, and hemp.

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[1] The rates given are the highest and lowest. The scale is highly complicated, as the following example (which is not exceptional) will show.

Duties on tissues of linen or hemp, unbleached, weighing from 10 to 40 kilo. per 100 square metres, and containing in warp and weft in a square of 5 millimetres each side, after division of the total by two.

6 threads or less	. . .	45 francs.
7 or 8 ,,	. . .	65 ,,
9 or 10 ,,	. . .	80 ,,
11 or 12 ,,	. . .	100 ,,
13 or 14 ,,	. . .	125 ,,
15, 16, or 17 ,,	. . .	140 ,,
18, 19, or 20 ,,	. . .	220 ,,
21, 22, or 23 ,,	. . .	300 ,,
more than 23 ,,	. . .	400 ,,

There are similar groups for goods weighing more than 40 or less than 10 kilo. per 100 square metres. For bleached cotton tissues there are seven divisions, and six of these contain four separate rates of duty, according to the number of threads in a square of the usual 5 millimetres. It is unnecessary to point out the trouble and cost of administration resulting from so elaborate a classification, which is, however, probably inevitable if the system of specific duties is to be satisfactory.

France was able, without much difficulty, to make arrangements with most of the European Powers, by which she granted them the advantages of her minimum tariff, and secured their lowest tariff rates in return. There were some difficulties with Spain, and against Portugal and Italy the maximum scale was adopted. But the most serious conflict was with Switzerland. That Republic had undertaken in 1890 the revision of its general tariff, partly in order to secure additional revenue for the Federal Government. When the tariff of 1892 was under discussion in France, the Swiss authorities intimated that they could not accept the French minimum scale as a return for concessions on their side, and consequently they asked for reductions on sixty-two articles, chiefly industrial products. The French Ministry was not unwilling to give way, on account of the importance of the Swiss market; but the protectionist movement in France was too strong, and the proposals of the Minister of Commerce were rejected by the Chamber. Consequently in January, 1893, the Swiss Government subjected French goods to its new general tariff, and imposed even higher duties on some 200 commodities. France in its turn levied its maximum tariff on Swiss goods, but its war rates were much lower than those employed by Switzerland.[1]

The war lasted for a little more than two years and six months. But both sides soon became weary of the struggle, and were alarmed at its effects. Negotiations began in the latter part of 1894; but Switzerland adhered to its refusal to accept the French minimum tariff in return for its own conventional rates—it insisted on a number of special reductions, and as France was anxious to come to terms, she at last agreed to give Switzerland lower rates on twenty-nine commodities. In return she received the benefits of the Swiss conventional rates, with the "most favoured nation" clause. Legislation in the two countries in July and August, 1895, confirmed the new arrangements, which remained, however, terminable by either party at any time.[1]

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[1] Franke (p. 48) regards this as the chief cause of France's defeat.

The effects of the war were severe on both sides. The following table gives (in million francs) the French exports to Switzerland, and Swiss exports to France, for the four years preceding the war, and the four years after its commencement:—

Year.	French Exports to Switzerland.	Swiss Exports to France.
1889	230·5	101·5
1890	242·8	104·2
1891	234·8	103·4
1892	227·9	91·9
1893	172·8	74·9
1894	129·9	66·6
1895	163·2	67·3
1896	179·9	75·4

The figures for 1895 show the beginning of an improvement, since the war only lasted for seven months of that year; since then the upward movement has on the whole continued, but up to 1901 the trade between the two countries had not returned to the level of 1891.[1] France's export trade suffered most in the case of wine (which dropped from 19·3 million marks in 1891 and 15·6 millions in 1892 to 1·4 million in 1894), sugar (which was also almost entirely destroyed), cattle, and clothing. Switzerland, on its side, lost in silk and silk goods and cottons. But France lost much the more heavily, and the result of the war was so much a victory for Switzerland that she secured some preferences over other nations in the French market, without giving France any such preference in return.

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[1] See *Report on Tariff Wars*, pp. 1–6, 77–85.

We may now examine the general movement of French trade and industry since 1892, and notice some of the subsequent developments of commercial policy. First as to French foreign trade. The following table gives the figures in million francs for the period 1892 to 1901 :—

SPECIAL TRADE

Year.	Imports.	Exports.
1892	4,188	3,461
1893	3,854	3,237
1894	3,850	3,078
1895	3,719	3,374
1896	3,799	3,401
1897	3,956	3,598
1898	4,471	3,511
1899	4,518	4,152
1900	4,698	4,109
1901	4,715	4,166

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[1] *Report on Tariff Wars*, pp. 84–5.

Comparing these figures with those given for the years 1881–91 on p. 326, we obtain some interesting results. Excluding the year of the tariff changes, 1892, we find that the average imports were for 1883–91 4,344 million francs, and for 1893–1901 4,175 million — a slight decrease. But it is noteworthy that imports were unusually high (4,767 million) in 1891; with the introduction of the new tariff there was a drop, but not a considerable one. Then in 1896 recovery began, and by 1901 imports had reached again nearly to the height of 1891. So that the legislation of 1892 did realise its purpose for a time—it did check imports for some years, but not for long. Its only permanent effect seems to have been in staying the import of foodstuffs, as the next table shows.[1]

IMPORTS OF FOODSTUFFS (million francs)

1889	1,441	1896	1,007
1890	1,445	1897	1,029
1891	1,652	1898	1,505
1892	1,400	1899	951
1893	1,061	1900	819
1894	1,198	1901	802
1895	1,035		

When we contrast this with the growth of similar imports into Germany and Great Britain during the same period, there can be no question as to the effectiveness of the Protection given to agriculture—that is, so far as the keeping-out of foreign supplies is concerned.

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[1] Franke, pp. 61–2.

When we turn to the exports, we find that the average for 1883–91 was 3,393 million, and for 1893–1901 3,623 million—a fair increase, but not comparable to the expansion of the exports of France's neighbours, Great Britain and Germany. The growth is in raw materials and manufactured goods; the export of foodstuffs shows an average for the latter period of 692 million, as against 782 million for 1883-91. But even these showed a marked recovery at the end of the century; from 759 million in 1892 they sank to 591 million in 1895, rose to 721 million in 1897, fell in the following year, and then rose to 769 million in 1900 and 778 million in 1901.

Next as to agriculture, which the tariff of 1892 was particularly intended to benefit. The following table gives the home production of corn and surplus of imports over exports in million hectolitres, and the average prices in francs per hectolitre:—[1]

Year.	Production.	Surplus Imports.	Average Price.
1891	77·2	27·3	20·6
1892	109·5	25·7	17·9
1893	97·8	13·3	16·5
1894	122.5	16·5	15·2
1895	120·0	6·4	14·4
1896	119·7	2·2	14·8
1897	86·9	6·9	18·8
1898	128·3	26·2	19·9
1899	128·4	1·7	15·6
1900	114·7	1·6	15·5

There has been a marked increase in the average amount of land under wheat cultivation, and a substantial increase in the average production. Prices have shown, with the exception of the years 1897 and 1898, a tendency to a continued fall, with the result that the growers have not reaped all the advantage which they apparently anticipated when they secured the increased duties in the eighties; all that can be said is that the fall would have been much greater without the tariff. But the farmers were not satisfied, especially when the fall of prices continued after 1892; they began to make fresh demands on the Legislature, and in 1897 they obtained an increase in the duty from 5 to 7 francs per 100 kilo.—the duty on flour was increased at the same time. Similarly, as a result of the continued fall in the prices of meat, the cattle-rearers began to agitate, but they secured no advances of duties until 1903, when the rates on fresh and salted meat, and on live cattle, were raised substantially.[1] Between 1894 and 1898 there was a decline in the price of butter, with the result that the duty, hitherto 6 francs per 100 kilo. was raised to 20 francs without checking the fall for long.[2] In this connection it should be added that the wine duties were rearranged and increased in 1899. Since 1892 the tendencies seem to have been towards enlarged production of wine,

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[1] For previous years see p. 328.

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[1] *Blue Book on British and Foreign Trade and Industry*, pp. 128–9.

[2] The average price of butter per kilo. was in francs :—

1892	3·90	1896	2·67	1900	3·24
1893	4·20	1897	2·77	1901	2·89
1894	3·25	1898	3·06		
1895	2·80	1899	3·31		

a decline in exports of the cheaper kinds, and a greater home consumption. The average of this last was 36·2 million hectolitres in the years 1884–91, and 47·7 million in 1893–1900.[1] Probably the duties were of some use in helping the wine-growers through the crisis caused by the phylloxera. Finally, the quantity of beet sugar manufactured in France was 523 million kilo. in the years 1892–3, and 869 million in 1899–1900.[2]

The industrial progress of France has been much more marked, at least in some branches. The quantity of coal produced,[3] which was 25·2 million tons in 1893, rose steadily to 33·3 million in 1900, whilst the consumption advanced uninterruptedly from 34·4 million tons to 46·7 million. The output of pig-iron increased in the same period from 2 million tons to 2·7 million, whilst iron and steel advanced from 1·5 million tons to 1·9 million, and were much higher than this in 1899. The cotton industry made considerable progress; the following table shows the average consumption of raw cotton in million kilo., omitting the year 1892 (when, however, the amount was unusually high—178·6 millions):—[4]

1884–7	106·7
1888–91	124·6
1893–96	143·2
1897–1900	174·6

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[1] Franke, p. 82.

[2] *Statistical Abstract for the Principal and other Foreign Countries*, 1903, p. 324.

[3] Excluding lignite.

[4] *Annuaire Statistique de la France*, 1900, p. 542.

After 1893 the imports of cotton goods showed a tendency to fall somewhat rapidly, whilst exports fluctuated; and it certainly appears that the French manufacturers have been strengthening their hold on the home market. The silk industry remained almost stationary, both in total production and in exports (these latter averaged 244·5 million francs for the period 1892–6, and 265 million for 1897–1901), in spite of the greatly increased duties levied in 1899 on silk goods coming from Asia—a measure directed chiefly against Japan. The woollen manufacture, so far as can be judged from the statistics of foreign trade, is also not in a very flourishing condition, but apparently it is increasing its control of the home market, since the imports of raw wool show no falling off, whilst in manufactured goods imports and exports alike have a downward tendency.[1]

Two other points in French commercial policy should be noticed. The first is the shipping legislation; we have already seen that in 1881 bounties were established on shipbuilding and long-distance voyages. From that year up to 1892 there was real progress in shipping—the tonnage of French mercantile steamships more than doubled, and the share of French vessels in the over-sea trade of France was 30 per cent. on the average for 1881–92, as against 26 per cent. for 1877–80.[2] But shipbuilding made no such advance; the following table gives the tonnage built in France and bought from abroad:—

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[1] The export of raw wool has, however, risen considerably.

[2] Franke, p. 139.

Year.	Tonnage built in France.	Tonnage bought from abroad.
1881	11,559	5,006
1882	12,692	4,938
1883	9,183	5,974
1884	16,507	8,279
1885	10,591	5,800
1886	9,800	9,224
1887	7,293	4,953
1888	18,197	11,492
1889	10,230	14,574
1890	10,391	25,891
1891	17,800	8,816
1892	11,026	5,759

The movements of 1888–90 had caused dissatisfaction amongst the shipbuilders, and in 1892 they demanded an increase in the bounties on building, the continuance of the voyage bounties to French-built ships, and the abolition of the half bounties given to ships purchased from abroad. The shipowners were strongly hostile to this last suggestion, and asserted that the prices of the French yards were much too high owing to the limited competition, and that the number of yards was altogether inadequate. Both the Ministry and the tariff commission of the Chamber agreed with them; but the Chamber itself accepted the proposals of the shipbuilders by the law of 1893. But the controversy was not ended; there were renewed complaints from the shipowners, and in 1897 the Government inaugurated an elaborate inquiry, which lasted until the end of 1898. The investigation showed that since 1893 there had been general retrogression—the building of steam vessels was practically stationary from 1892 onwards, and the average for the years 1892–9 was only 498,000 tons as against an average of over 500,000 tons for the period 1886–91. On the other hand, the building of sailing vessels was increasing, and the total tonnage of French sailing vessels in the mercantile marine rose from 397,000 tons in 1893 to 451,000 tons in 1899. The share of French ships in French over-sea trade dropped to 25 per cent. in 1893 and 1894, was 24 per cent. in the three following years, and sank to 22 per cent. in 1898.[1] It is not suggested that this decline was due to the law of 1893, except in so far as it discouraged the purchase of vessels from abroad; the causes of the decline are rather to be sought in the defects of the French shipbuilding yards, the cost of materials,[2] the unsatisfactory character of many of the French exports considered as freight, the heavy dues, and a number of other difficulties with which the shipowners had to cope. But after long discussion it was resolved to continue the old system, but to extend the arrangement again to ships purchased from abroad. An Act of 1902 established a new and increased scale of bounties.

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[1] These figures are taken chiefly from Franke (pp. 122–46), who follows the report of the inquiry.

[2] It was estimated that the cost of building an ordinary small steamer was 80 per cent. higher in France than Great Britain.

The other noticeable point is the arrangements made for the French colonial possessions by the Act of 1892. They are divided into two classes. The first includes Indo-China, Madagascar, French Guiana, New Caledonia, the French West Indies, and a few others. In all these the tariff on foreign products is commonly identical with the rates levied by France; but French goods are admitted free. Goods coming from these colonies into France are in general exempt from duty; but "colonial produce"—coffee, cocoa, tea, pepper, etc.—are for financial reasons subject to half the ordinary (minimum) rates, and sugar and its derivatives pay special duties for the sake of the home producers. The second group includes French Congo, Ivory Coast, Dahomey, Guinea, Senegal, Somaliland, and the French possessions in India. Imports from these into France pay the minimum tariff rates as a rule, but there are a number of commodities, such as coffee, cocoa, timber, palm oil, etc., which may be imported into France either freely or at reduced rates up to a certain amount. French imports into these possessions are duty-free. The Algerian tariff is almost identical with the French; it is treated as if it were a member of the first group, but may impose a duty on French sugar.

This brings our survey of French tariff history to an end. Since 1872 France has had part in the economic development of the world, but compared with Great Britain, Germany, or the United

States, her part has been only small. It is true that the disasters of the Franco-German War had crippled her at the outset of that period, but her marvellously rapid recovery then only encouraged expectations which time has disappointed. In the great industrial and commercial expansion of the last decade of the nineteenth century France had little share; her coal and metal industries show progress which is satisfactory only if the growth elsewhere be ignored; on her textile industries (if cotton be excluded) even so moderately favourable a judgment seems hardly possible; her shipping is stationary. Agriculture is doing fairly well, with the aid of strong Protection, and opinions as to the condition of the peasantry are divided; but there is little movement forward. One reason for this uncheering economic position of France is certainly the slow growth of population, which in the thirty years up to 1901 increased only 3 millions, as against 10 millions in Great Britain and 15 millions in Germany. It may be that this is a result of the system of peasant holdings and the French law of succession;[1] but whatever be the cause, a remedy must be found if France is to retain her place as a great nation. Other reasons for her economic stagnation —for such it really is—can be indicated: the racial character of the French, and the fact that they are essentially not a business people; their indifference towards colonisation and foreign trade;[1] the undue attention to a home market which is not extensive; and the dulling influence of the protective tariff on the initiative and energy of the manufacturers, hampered as they are also by the taxation of many materials. Protection in the United States seems to have had no such effect, and probably the reasons for the difference between the two countries must be sought in national character and the extent of the home market. The causes of economic progress and retrogression are so numerous and complex that it is almost impossible to discover the effect of any particular force; and in the case of France the task is peculiarly difficult. But of the French tariff legislation it can be said with some confidence that, whatever it may have done to maintain agriculture—and even there it is arguable that it has encouraged the continuance of old-fashioned methods—it has wrought little good and in various ways much harm to industry and commerce.

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[1] Cf. Coubertin, *L'Evolution française sous la troisième République*, pp. 392–7.

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[1] "Le grand mal en France, c'est l'esprit casanier. Le Français ne sort pas de chez lui" (Hanotaux).

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